Cartrefi Cymunedol Cymru | Community Housing Cymru

Global Accounts 2022

Contents

01
Foreword

Foreword

This year's Global Accounts of housing association's financial performance captures the story of success in the face of adversity. It has been a year of continued turbulence; since March 2021 the macro-economic climate has been subject to considerable uncertainty, from further waves of Covid-19, the rising cost of living and energy costs, supply chain issues and price increases, and the War on Ukraine to name a few.

However, despite these considerable headwinds this report tells a story of continued confidence across the sector. Whilst times are most certainly tough the unique partnership of associations as social businesses supported by the Welsh Government continues to result in investment in existing homes and much needed new ones. Associations in Wales provide over 170,000 homes as of March 2022 to support our collective ambitions to end homelessness, provide preventative support and keep people safe.

As independent businesses that exist for social good, housing associations' ability to leverage private finance to make every pound of funding go further makes a real difference to homes and services across Wales. Housing associations in Wales continued to attract competitive rates of borrowing to invest in homes and services, demonstrating that the lending community continue to view housing associations as a resilient and efficient sector.

As a partnership the Welsh Government and housing associations have big ambitions. We know that home matters. We want to provide great quality homes that are affordable and safe, build thousands of new homes and provide services that matter to people. A firm financial foundation is critical to this and we will continue to work together to support investment in communities across Wales.

Julie James MS
Minister for Climate Change

Andrew Martyn-Johns
Chair of Community Housing Cymru

02 Executive Summary

Executive Summary

This report on the affordable housing sector in Wales is co-produced by Community Housing Cymru (CHC) and the Welsh Government. CHC is the representative body for all regulated not-for-profit housing associations and community benefit societies in Wales. Its members provide homes and housing-related services across Wales. This report is derived from the audited financial statements of the largest 33 housing associations and provides information and commentary on the financial position of the sector for the year ended 31 March 2022.

These results demonstrate the sector's strong balance sheet and continued ability to attract investment underpinning a strong in-year performance. There is a clear ongoing commitment and capability to support the provision of quality, affordable housing across Wales, stimulate the Welsh economy and help mitigate the impact of poverty on people's lives. The sector as a collective group of organisations has posted a positive financial result before actuarial adjustments recording increases in turnover and operating surplus, attracting additional debt into the sector whilst substantially improving the free cash flow position and sustaining an effective level of surplus before interest and tax for the period. Maintaining the delivery of surpluses is essential to supporting the resilience and growth of the sector, funding maintenance of existing homes and underpinning essential investment to build new ones.

Since March 2021 the macro-economic climate has been subject to considerable turbulence, from further waves of Covid-19, the impact of cost of living and energy costs, supply chain issues, and the War on Ukraine to name a few.

2022 key messages and forward-looking information based on sector forecasts

- The sector now owns and manages 173,937 homes (2021: 169,337) with general needs properties and retirement accommodation accounting for 88% of this figure; 153,579 homes (2021: 151,545). This is forecast to increase by over 3,000 homes per annum meaning there will be over 188,000 homes in the sector by 2027.

- Turnover for the year was £1,159m, an increase of £50m from £1,109m in 2021. Turnover is forecast to rise by around 4% per annum to £1,400m by 2027.

- Operating surplus for the year was £212m (2021: £238m). Operating margins fell to 18% from 22% in the prior year, reflecting tougher macroeconomic conditions. Traditional housing associations had a margin of 20% and LSVTs 16%.
- Housing fixed asset levels before depreciation are now shown at £9.4bn, an increase of 5% from £8.9bn in 2021, a similar year on year rise to the previous year. Housing assets are predicted to rise by an average of 5% per annum to £12bn by 2027.
- Increased borrowings – the total debt level is now £3.5bn, a small rise from £3.3bn in 2021. Borrowings are forecast to rise at their historic rate of £0.2bn per annum for the next 5 years, reaching £4.5bn by 2027. The majority of private finance no longer comes from banks as the sector adapts to change and diversifies funding.
- The effective interest rate for borrowing was unchanged at 4.0% (2021 and 2020: 4.1%).
- Sector gearing on 'Historic Cost basis' is unchanged at 44% (2021 and 2020: 44%).
- Sector gearing on a 'Net Worth' basis is at 59%, a slight decline from 62% in 2021.
- Capital and Reserves levels are now £1.44bn (2021: £1.21bn).
- Housing associations continue to directly employ around 11,000 people in full-time equivalent staff (FTE) jobs in Wales and this figure rises to around 27,000 if indirect sources of employment are also considered.
- Continued sector free cash inflow for 2022 came to a total of £62m, another year of significant cash inflow into the sector.

This document does not individualise association performance, it shows the collective 'global' position. Each association has performance, planning and risk issues relevant to themselves that differ between organisations and are managed by association executive teams and boards of management.

The sector continues to evolve into a collection of highly capitalised organisations that own and manage long-term assets supported by long-term financing. Obligations to meet increasing debt repayments is crucial, so managing risk around income collection and treasury management remains fundamental for boards and executive teams to consider developing funding strategies. As the macroeconomy adjusts to significant shocks such as

Brexit, the War on Ukraine, cost of living adjustment and Covid-19 recovery, the tactics used to manage risks will be constantly reviewed and finessed.

Turnover continues to rise year-on-year underpinned by a continued strong partnership with the Welsh Government. Social housing has received record breaking levels of investment from the Welsh Government alongside housing association investment. In 2021/22 for every £1 received from Welsh Government, the housing associations are estimated to bring in £5.73.

The reported operating surplus of £212m becomes a net surplus after all adjustments for the year of £207m. This is primarily as a result of interest payable of £140m (2021: £145m) and positive actuarial adjustments to pension schemes of £133m (2021: loss of £125m). Without this non-cash actuarial pension adjustment, the surplus would have been £74m or 7%.

With the presence of greater accounting complexity 'free cash flow generation' evidences a metric of business performance and strength that increasingly provides measurable and meaningful information to stakeholders and funders in particular. Free cash shows the level of cash generated, or consumed, by the existing portfolio of properties – it is the cash left over after meeting all expenditure required to run operations on a daily basis, including loan interest, and before loan repayments, investment in new homes and related grant receipts. Overall, as in 2022 and for the years before, there was a welcome increase in the net inflow of sector free cash, totalling £62m.

During 2021, £575m of new debt facility was arranged, following £481m raised in 2021. This debt resulted from a combination of raising new funding and restructuring older debt in broadly equal proportions. These new facilities continue the trend of housing associations seeking alternative modes of longer-term funding through bond finance and institutional investors that have proved attractive regarding the length of term, flexibility and overall cost of funds. Housing associations will be affected by interest rate moves both positive and negative and are currently facing an environment where interest rates are increasing. Therefore, effective treasury management and business plan analysis will help associations manage risk and improve their longer-term financial positions. The rising indebtedness of the sector, sustained strong sector-wide financial performance and the continued posting of annual surpluses helps associations deal with economic and political challenges facing the sector and wider economy in Wales in a complex operating environment.

Across the UK the need for greater volumes of affordable homes has never been so acute, and the sector in Wales is playing a vital role in helping meet this need on a local level. Housing associations hold a clear social vision that offers confidence to tenants and funders on their purpose and priorities. The supportive levels of Welsh Government Capital and Revenue subsidy has enabled much of the sector to achieve their objectives and the presence of robust regulation has promoted greater transparency providing stakeholders with a reassuring outlook on the sector's performance to date and for the future.

The UK left the EU on 31 January 2020. The sector continues to map out the impacts of this in the longer term. The importance of establishing economic certainty and frictionless trade agreements continue to dominate political agendas and associations are keen to stabilise their own ability to source finance, skills and materials for development and maintenance programmes. Regular stress-testing of business plans continues alongside a comprehensive assessment of the association's assets and liabilities. From governance perspectives, board members continue to exercise knowledge, skills and challenge for the complex businesses they oversee, supporting executive management to ensure the strategies adopted offer optimal chances for the growth and success of their associations and ultimately prosperity for the tenants they serve.

The first lockdown in response to the Covid-19 pandemic was fully in flow during this financial year. Covid-19 has had a noticeable impact in numerous areas such as maintenance, but these accounts highlight the resilience of the sector to those impacts. The sector continues to monitor its performance against key financial and safety metrics from March 2020 onwards. To date, performance by Welsh housing associations has been robust.

The sector's overall financial performance in this year has been one of consistent progress in its key financial metrics. Housing associations in Wales are well placed to continue investing in existing stock and deliver new supply and are also considering, the growing decarbonisation agenda and its integration into operations. The regulator consistently engages and supports the sector, observes the financial health and governance arrangements of associations and seeks assurances on their ability to be financially viable and resilient, well-governed and capable of delivering homes and high quality services to tenants across Wales.

03 Housing association accounts and cash flow

Overview

This report contains an analysis based on the statutory financial statements of 33 (2021: 33) of the largest Welsh housing associations; traditional housing associations and LSVT (local authority stock transfer) organisations. Two of these housing associations merged in 2021. These housing associations, of which 11 are LSVTs, own and manage over 173,000 homes. Social housing units represent 88% of the total managed homes and comprises general needs, retirement accommodation and supported housing. The remaining stock includes leasehold properties, shared ownership properties, student accommodation and other homes.

The sector directly employs around 11,000 FTE staff and it is estimated that for each person employed at least another 1.5 FTE positions are supported elsewhere within the Welsh economy. Housing associations do not only provide housing accommodation but are involved in a wide range of activities including regeneration work, working with health and social services and other statutory bodies and community-based projects.

Cash flow

Given the level of complexity and amount of detailed disclosures required in annual accounts, free cash flow arguably provides a key measure of business viability. With the cost of long term repairs and maintenance spread out over many years, through the Statement of Comprehensive Income, and with multiple non-cash accounting entries now also appearing in this statement, the annual surplus reported must not be looked at in isolation.

Free cash shows the level of cash generated or consumed by the existing portfolio of properties. It is the cash left over after an association has met all expenditures required to run the organisation on a day-to-day basis including salaries, maintenance, component replacements, major repairs, interest expenditure but before loan repayments, and investment in new housing stock and related grant receipts.

Overall there has been another year of free cash inflow into the sector totalling £62m (2021: free cash flow: £149m). For traditional associations, the levels have fallen back slightly to £53m (2021: £102m). LSVTs have shown an inflow of £9m (2021: £47m in 2021). Overall the inflow in net cash has declined as a result of a decline in operating margins remains significantly positive.

With the increased development ambitions and a sector that continues to restructure debt to obtain more attractive funding, it is pleasing to see the free cash figure remaining buoyant for the period. Maintaining a strategy of free cash generation underpins medium and long term business planning and treasury management to meet all loan repayment commitments. This key metric demonstrates a degree of financial strength that lenders look for to continue investing in the sector.

In 2022 there has been considerable investment in fixed asset component replacements, which totals £151m for the year (2021: £110m) with the increase in investment being seen in both traditional and LSVT housing associations. As in prior years the majority of the investment is within LSVTs.

There has also been a partial recovery in the development and purchase of new homes, which now totals £422m (2021: £397m). The majority of the increase has been in housing associations, but there is modest growth of £10m within LSVTs, a consistent year on year trend. The total investment is, however, still below the pre-Covid levels (2020: £485m).

Loans received within the year totalled £575m, a substantial increase on the 2021 level of £481m, which increases capacity to build new homes in the future. Loans repaid totalled £404m (2021: £336m). LSVTs were responsible for the majority of the net movements in loans both received and repaid, an increase of £26m. There has been little in the way of refinancing activity within the year, as in the last.

Cash Flow Statement 2022	**Traditional 2022 £m**	**LSVT 2022 £m**	**All 2022 £m**	**Traditional 2021 £m**	**LSVT 2021 £m**	**All 2021 £m**
Net cash inflow from operating activities	198	141	**339**	198	171	**369**
Interest paid	(89)	(38)	**(127)**	(86)	(53)	**(139)**
Interest received	1	–	**1**	1	1	**2**
Proceeds from sale of properties	19	7	**26**	25	5	**30**
Taxation	–	–	**–**	0	0	**0**
	129	110	**239**	138	124	**262**
Replacement fixed assets	(10)	(6)	**(16)**	(7)	(6)	**(13)**
Component replacements	(52)	(99)	**(151)**	(30)	(80)	**(110)**
Component grants	5	12	**17**	1	9	**10**
Free cash inflow	53	9	**62**	102	47	**149**
Purchase and development of properties	(306)	(115)	**(421)**	(294)	(103)	**(397)**
SHG and other grants received	181	61	**242**	140	67	**207**
Other	(2)	–	**(2)**	(11)	(1)	**(12)**
Net cash outflow from capital expenditure	(74)	(45)	**(119)**	(165)	(36)	**(201)**
Loans received	374	201	**575**	349	132	**481**
Loans repaid	(259)	(145)	**(404)**	(254)	(82)	**(336)**
Other financing income / (costs)	(1)	(9)	**(10)**	13	(0)	**13**
Net inflow from financing activities	40	2	**42**	108	50	**158**
Increase / (decrease) in cash	58	6	**64**	45	61	**106**

Statement of Financial Position

Fixed Assets

Reflecting the considerable investment in new homes and in replacing components within the sector, total fixed assets have continued to rise again this year and now stand at £8,390bn i.e. an increase of £7,953m. This is a further annual increase of 5% on top of growth of 5% and 6% in the preceding years. Total investment levels are consistent between traditional housing associations and LSVTs. However, LSVTs, on balance, invest relatively more in replacing existing components.

Component replacements have increased in the year. 2022 has seen a partial recovery towards pre-pandemic levels with a total investment of £155m (2021: £110m). This is one area where the impact of Covid-19 has been felt in the sector. Lockdown made it increasingly difficult to access tenants' homes at pre-pandemic rates in 2021 in addition to supply chain disruption.

During 2022 the sector continued to invest significantly in building new homes. Investment for the period totalled £422m, (2021: £397m), again a partial recovery to the 2020 levels of £485m. Whilst the bulk of new homes are built by traditional housing associations, LSVTs are increasingly contributing to the supply of new homes. This is another area where Covid-19 will have impacted as many sites will have suffered delays.

At 31 March 2022 the latest available figures showed 100% (2021: 93%) of social housing dwellings were WHQS compliant (including acceptable fails) compared to 90% two years earlier. Excluding acceptable fails, 78% of all social housing dwellings were fully compliant with the WHQS for the period.

Fixed assets investments and other assets have remained stable during the period, totalling approximately £0.25bn in both years, and a small increase in commercial properties, which now total a net book value of £155m (2021: £120m) as the sector continues to diversify.

Working capital

The sector has current assets totalling £1,486m (2021: £1,466m), a small increase of £20m from last year. As in 2021, the majority of this is made up of £591m cash (2021: £527m) and debtors due after one year of £605m (2021: £649m). Current liabilities are stable at £555m (2021: £549m). £135m (2021: £143m) of current liabilities are made up of short term loans (2020: £139m) and other creditors of £334m (2021: £344m).

Net current assets are stable at £929m (2021: £917m), an encouraging trend considering the considerable macroeconomic challenges that the sector will have been facing from Covid-19.

Many housing associations have continued to strategically invest in support for their tenants and despite the challenges, there has been a decrease in rent arrears from 4.9% to 3.8% in the year. The sector has been affected by the impact of Universal Credit in recent years. During the lockdown, it worked sensitively with tenants to manage tenancies, and it has not seen significant changes in arrears as a consequence. The wider macroeconomic effect of furlough protecting working age tenant's jobs, delays to universal credit transition and temporary increases in Universal Credit may also have had an impact on maintaining arrears performance.

This is encouraging, but caution should be advised when considering the future impacts of cost of living increases. The scale of planned managed migration within Universal Credit is set to place significant pressures on vulnerable claimants, support services they rely on, and housing associations themselves, so it is imperative that assistance provided by the sector continues to be targeted, effective and efficient. This impact will also need careful monitoring as the ongoing impact of Covid-19, the ending of furlough and universal credit changes, coupled with the future cost of living rises are felt in the sector and the wider society.

Long term creditors

The sector now has £3,367m (2021: £3,205m) in long term debt, £135m (2021: £143m) in short term loans, and therefore the portfolio now totals £3,508m. This growth in debt has been used to fund investment in housing associations' portfolios, as demonstrated by the fact that the ratio of debt to fixed assets is consistent with 2021. The proportion of debt relating to LSVTs has increased again to 25% (2021: 24%) following LSVT refinancing in 2020. For further details of the loan portfolio please see Chapter 5. Portfolios reported in Chapter 5 exclude certain accounting adjustments as they are prepared on a different basis.

There has been similar growth in Social Housing and other Capital grants in the year, which now total £3,884 (2021: £3,588m), an increase of £296m during the year. This increase is also broadly in line with the growth in fixed assets. The statement of financial position shows that the proportion of grants relating to LSVTs as of 31 March 2021 was at around 14% of the total grant funding, a similar level to last year.

Loans and lending

Of the 33 housing associations covered in this report, the significant majority (28) reported new lending in the year. As mentioned previously there have not been any significant refinancing undertaken in the year, but there is consistent new lending coming into the sector as building programmes recover from Covid. Both traditional housing associations and LSVTs have seen this trend. Overall net lending (new loans less repaid loans) has declined somewhat, to £42m (2021 £155m) but is still in a net positive position as the sector moves forward from Covid.

Pensions

The overall pensions liability has decreased by £126m to £204m. This is in effect a return near to the 2020 level of £195m, amply demonstrating the volatility within pension fund actuarial adjustments. Accounting rules require a number of actuarial accounting adjustments made to pensions liabilities each year to update the net future liabilities. The historic pattern for the sector is considerable swings of volatility, positive and negative, year on year. This year the positive effect was particularly prevalent within LSVTs, who received the majority of the actuarial gain (£87m out of £133m), reflecting a larger movement within legacy LGPS pension schemes as opposed to SHPS. It is important to note that these are complex actuarial adjustments required by IFRS dependent on external macro-economic factors and do not represent amounts immediately payable.

Reserves

The total capital and reserves of Welsh housing associations have increased by £154m (2021: decreased by £37m) and now stand at £1,367m. Actuarial adjustments improved reserves by £133m but the other, non-actuarial activities increased reserves by £21m. The robustness of the sector is demonstrated by the fact that these reserves are equivalent to over 15 years' worth of net surpluses. Restricted reserves are very small at £20m (2021: £5m).

Following standard accounting practice, the reserves of the sector are always equal to its net assets, and are therefore indicative of the overall balance sheet strength. It should be noted that not all of the reserves are backed by cash. Some of the reserves will be made up of longer term assets such as homes necessary for housing associations to conduct their activities. Close management of reserves and the net assets contained within are part of sound financial management within the sector.

Statement of Financial Position 2022	**Traditional 2022 £m**	**LSVT 2022 £m**	**All 2022 £m**	**All 2021 £m**
FIXED ASSETS				
Housing properties at cost	7,128	2,311	9,440	8,903
Depreciation	(941)	(557)	(1,498)	(1,364)
NBV of housing properties	6,187	1,755	7,942	7,539
Intangible assets	4	3	7	6
Commercial property	116	39	155	120
Fixed asset investments	132	6	138	143
Other (including office premises)	(52)	(99)	(151)	(110)
Total Fixed Assets	6,551	1,839	8,389	7,953
CURRENT ASSETS				
Assets held for sale and stocks	34	8	42	52
Debtors due within one year	176	110	286	239
Debtors due after one year	220	385	605	649
Cash and cash equivalents	378	213	591	527
Total Current Assets	768	716	1,484	1,466

Statement of Financial Position 2022	Traditional 2022 £m	LSVT 2022 £m	All 2022 £m	All 2021 £m
CURRENT LIABILITIES				
Short term loans	(114)	(22)	(135)	(143)
Capital Grants including SHG	(56)	(29)	(86)	(62)
Other current liabilities	(215)	(119)	(334)	(344)
Total Current Liabilities	(385)	(170)	(555)	(549)
Net Current Assets	383	546	929	917
Total Assets less Current Liabilities	6,943	2,384	9,318	8,870
LONG TERM CREDITORS AND PROVISIONS				
Long term loans	(2,535)	(831)	(3,366)	(3,205)
Capital Grants including SHG	(3,300)	(498)	(3,798)	(3,588)
Pension liability	(74)	(129)	(203)	(330)
Other including VAT shelter	(108)	(476)	(584)	(532)
Total Long Term Creditors and Provisions	6,017	1,934	7,951	(7,655)
NET ASSETS	917	450	1,367	1,213
RESERVES				
Income & Expenditure reserve	900	396	1,296	1,158
Restricted reserve	15	5	20	5
Revaluation reserve	2	49	51	49
TOTAL RESERVES	917	450	1,367	1,213

Statement of Comprehensive Income

Turnover

Turnover has continued to rise year-on-year. This year, there has been another consistent modest increase of £50m (2021: £43m), or 5% resulting in total turnover of £1,159m (2021: £1,109m and 2020: £1,066m). The rental uplift associations could apply to social housing rents in this year was set at a maximum of 2.7%, a figure linked to a CPI figure in the previous September. 63% or £734m (2021: £693m or 63%) of the total turnover is generated by traditional housing associations, a figure broadly consistent with the previous year.

2,500 new social homes were added to the stock in the year which contributed a significant element of the increase in turnover over and above 2.7%.

Operating Surplus

Operating surplus for the sector was £212m, a broadly consistent figure for the last two years (2021: £238m and 2020: £214m), including profits on sales of fixed assets although this element is not significant. Traditional housing associations operating surplus decreased slightly to £144m (2021: £151m), and LSVT operating surplus also slightly decreased to £68m (2021: £87m).

The operating margin fell to 18% from the 2021 level of 22%. Traditional housing associations saw a decline in their operating margin by 2% to 20% (2020: 21%), with LSVTs showing a fall to 16% (2020: 21%). Supply chain difficulties and a recovery of expenditure activity compared to 2021 will have all had an impact on performance in the year.

Operational surpluses allow associations to pay interest on loans and attract further finance for the development of new homes. The surplus on disposal of fixed assets was at £9m, (2021: £5m) which represents asset sales in a small number of associations. This trend is largely driven by the end of Right to Buy and is likely to continue into future years.

Interest rates

The overall amount of interest paid by the sector was stable at £140m (2021: £138m). The interest payable was unchanged within traditional housing associations at £91m and for LSVTs also stable at £49m. This again reflects the increasingly important development activity of LSVTs.

The effective interest rate for the sector as a whole was the same as the long term trend at 4.0% (2021 and 2020: 4.1%). The average rate for traditional housing associations has remained low and declined again in 2022, and is now 3.5% (2021: 3.6%). Traditional housing associations are experienced in managing value for money portfolios. The average rate within LSVTs fell slightly to 5.7% (2021: 5.8%). The differential of interest rates between the two cohorts is increasingly converging reflecting the positive effect of refinancing for LSVTs. In recent years a number of them have remedied the legacy restrictive fixed-rate loan arrangements to realise new development ambitions.

Actuarial movement on Pension Schemes

In 2022 there was a £133m non-cash actuarial gain in respect of pension schemes. This more than reversed out the negative non-cash actuarial loss of £124m recognised in 2021. These actuarial losses were prevalent in both SHPS and LGPS schemes, but particularly prevalent within LGPS pensions schemes which are largely utilised within LSVTs.

Annual actuarial changes result from movements in underlying actuarial assumptions including projected changes in inflation, the rate of increase in the level of pensions paid, future salary increases, a discount rate linked to gilts and mortality assumptions. Whilst these figures are important and significant, it is worth noting that these relate to long liabilities of the pension scheme and are not immediately repayable. As multi-employer defined benefit schemes both SHPS and LGPS are subject to close scrutiny from the pensions regulator. Ever since accounting rules brought in the current requirement to hold such liabilities and assets on the balance sheet the sector has seen considerable volatility in their movements, with the trend likely to continue into the future.

Income & Expenditure 2022	**Traditional 2022 £m**	**LSVT 2022 £m**	**All 2022 £m**	**All 2021 £m**	**All 2020 £m**	**All 2019 £m**
Turnover	734	425	1,159	1,109	1,066	1,006
Operating costs	(593)	(362)	(955)	(876)	(878)	(817)
Surplus on disposal of fixed assets	4	5	9	5	26	25
Operating surplus	145	68	213	238	214	214
Interest receivable and other income	5	–	5	7	9	9
Interest payable and similar charges	(91)	(49)	(140)	(138)	(131)	(127)
Exceptional items relating to breakage costs	(1)	(4)	(5)	(9)	(77)	(0)
Pension scheme net financing (loss) / gain	4	2	6	(2)	9	(12)
Fair value movements increase	4	2	6	(4)	1	1
Surplus for the year before tax	62	17	79	92	25	85
Corporation tax	(1)	–	(1)	(0)	(1)	(2)
Transfer from / (to) reserves	(2)	–	(2)	3	(3)	1
Surplus for year after tax and transfers	59	17	76	95	21	84
Actuarial (loss) / gain on pension schemes	46	87	133	(125)	64	(66)
Prior year adjustments	–	–	–	(7)	(1)	(3)

Income & Expenditure 2022	Traditional 2022 £m	LSVT 2022 £m	All 2022 £m	All 2021 £m	All 2020 £m	All 2019 £m
Transfer to general reserves	**105**	**104**	**209**			
Accumulated general reserves brought forward	**812**	**346**	**1,158**			
Accumulated general reserves carried forward	**917**	**450**	**1,367**			

Income and expenditure analysis	Turnover 2022 £m	Operating costs 2022 £m	Operating surplus/ (deficit) 2022 £m	Turnover 2021 £m	Operating costs 2021 £m	Operating surplus/ (deficit) 2021 £m
General Needs Housing	829	-692	137	794	-632	162
Supported Housing	75	-59	16	77	-58	19
Social Housing Totals	**904**	**-751**	**153**	**837**	**-690**	**147**
Non Social Housing	254	-203	51	272	-186	86
Subtotal	1,159	-955	208	1,109	-876	233
Surplus on sales of fixed assets	–	–	9	–	–	5
Total All Activities	**–**	**–**	**213**	**–**	**–**	**238**

Operating surplus analysis	Traditional 2022 £m	LSVT 2022 £m	All 2022 £m	Traditional 2021 £m	LSVT 2021 £m	All 2021 £m
Social Housing	130	23	153	68	79	147
Non Social Housing	11	40	51	82	4	86
Surplus on sales of fixed assets	4	5	9	–	–	5
Total All Activities	**145**	**68**	**213**	**–**	**–**	**238**

Homes in Management 2022	2022	2021	2020	2019	2018
ALL ASSOCIATIONS					
General needs and sheltered housing	**146,317**	143,772	141,592	139,979	138,001
Supported housing	**7,262**	7,743	7,587	7,500	7,353
Student accommodation	**3,924**	3,924	3,970	3,970	4,035
Shared ownership / Homebuy / LCHO	**2,615**	2,615	2,456	2,951	2,907
Leasehold	**5,931**	5,920	6,608	6,606	6,568
Other	**7,888**	5,320	4,226	3,815	4,119
	173,937	169,337	166,439	164,821	162,983
TRADITIONAL					
General needs and sheltered housing	**76,147**	75,279	74,887	73,309	71,558
Supported housing	**6,730**	6,226	6,069	5,926	5,734
Student accommodation	**3,924**	3,924	3,970	3,970	4,035
Shared ownership / Homebuy / LCHO	**2,459**	2,459	2,302	2,794	2,743

Homes in Management 2022	2022	2021	2020	2019	2018
Leasehold	**1,861**	2,240	2,361	2,442	2,246
Other	**4,118**	3,770	3,970	3,613	4,042
	95,239	93,951	93,559	92,054	90,358
LSVTs					
General needs and sheltered housing	**70,170**	68,493	66,705	66,670	66,443
Supported housing	**532**	1,517	1,518	1,574	1,619
Shared ownership / Homebuy / LCHO	**156**	156	154	157	164
Leasehold	**3,171**	4,281	4,247	4,164	4,322
Other	**3,770**	1,550	256	202	77
	78,698	75,997	72,880	72,767	72,625

Overall the sector's total units in management have increased to 173,937 from 169,337 representing a net increase of 4,603 (2021: increase of 2,898) in the year. General needs and sheltered housing increased by 3,601 to 146,317. Supported housing decreased by 1,567 meaning the total social, affordable increase during 2022 equated to 2,034. Shared Ownership / Homebuy and LCHO remained stable at 2,615 in both years whilst other classifications increased by 2,579.

Social housing properties (general needs, sheltered housing and supported housing) represent 85% of the total units, a fall in the proportion of 90% in the previous year. Another year of increases in such homes adequately positions the sector to achieve the Welsh Government target of 12,500 affordable homes target for this term of Government.

04 Value for Money

Value for Money (VfM)

The principal purpose of housing associations is to provide affordable housing to meet housing needs, and to do this it is vital that best use is made of the income they receive, including grants and state benefits which help support housing costs and rents. Associations must therefore demonstrate that they deliver value (by maximising the outcomes they produce) in return for the income they receive. This is reflected in the Welsh Government's regulatory framework, . And in the spirit of co-regulation Welsh Government has given housing associations the opportunity to take a lead in this area and demonstrate their commitment to it.

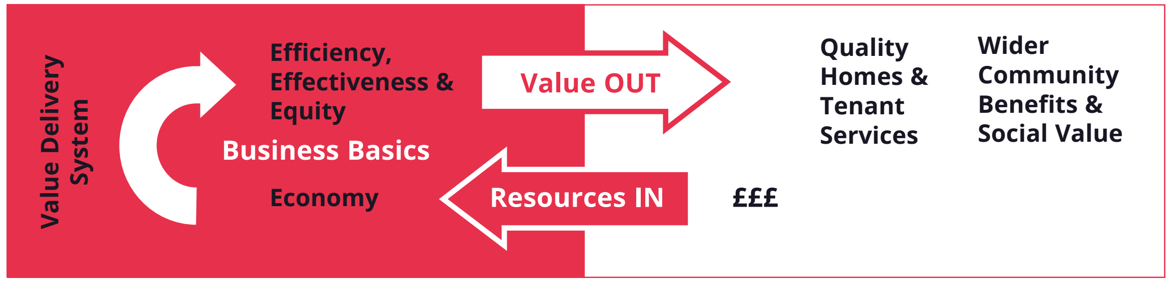
Value for Money is generally considered to cover three elements; economy, efficiency and effectiveness and can be summarised as:

1. **Economy —** doing things at the 'best price'
2. **Efficiency —** minimising waste and doing things the 'best way'
3. **Effectiveness —** doing the 'right things' by maximising the positive outcomes produced

Wales has added a fourth 'E' for consideration: **Equity —** recognising diversity and spending fairly to ensure that those in greatest need are considered.

The diagram below illustrates the relationship between these four elements. It is important to identify appropriate measures that demonstrate the delivery of these elements:

Diagram 1 – A model for understanding VfM in Wales



Enable an understanding of 'money' i.e. service costs (inputs) **— economy**

Indicate how effective the process of converting inputs to outputs **— efficiency**

Map to the areas of 'value' created (outcomes / outputs) **— effectiveness**

The financial data within housing association accounts can be effectively deployed to capture certain headline economy and efficiency indicators, although it is more difficult to produce a complete and rounded measure of effectiveness exclusively from this financial data. Information extracted from the Global Accounts underpins useful and comparative cost data analyses that allows for VfM assessment.

VfM is not a cost-cutting exercise, nor is it solely about service provision – it is about strategic leadership of the organisation and captures all housing assets and resources. All available resources must be used to maximise the outcomes of the organisation to meet its charitable and corporate objectives. These Global Accounts can therefore be used to provide indicators of financial economy and effectiveness with an acceptance that financial data, in isolation, is not enough to tell the whole VfM story. The VfM tenet continues to demand extensive consideration throughout housing associations in Wales to further provide information on efficiency of processes, organisational effectiveness and value of outcomes achieved whilst ensuring that equity is delivered.

Ten financial VfM indicators (five related to economy and five related to efficiency, of which one combines with effectiveness) have been identified from the Global Accounts which can be viewed at an all-Wales level. Global Accounts ratios are detailed in full in section 6, Trend Analysis and VfM Indicators.

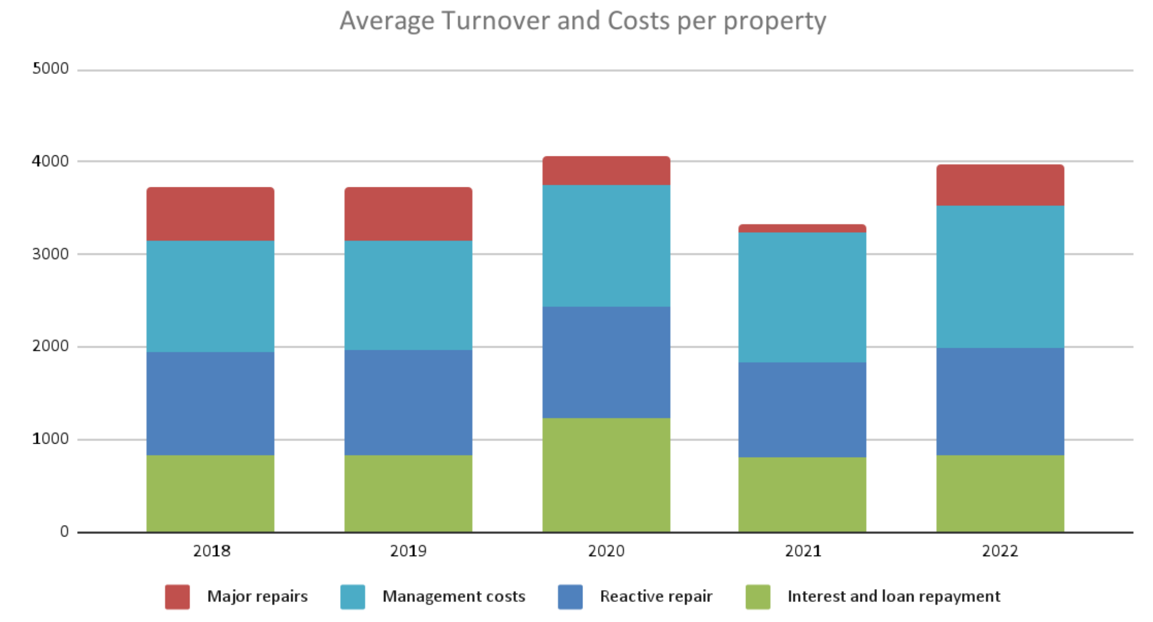
Four of the financial economy measures relate to costs and are calculated per social housing unit:

1. Operating costs
2. Management costs
3. Reactive repair costs
4. Major repair costs

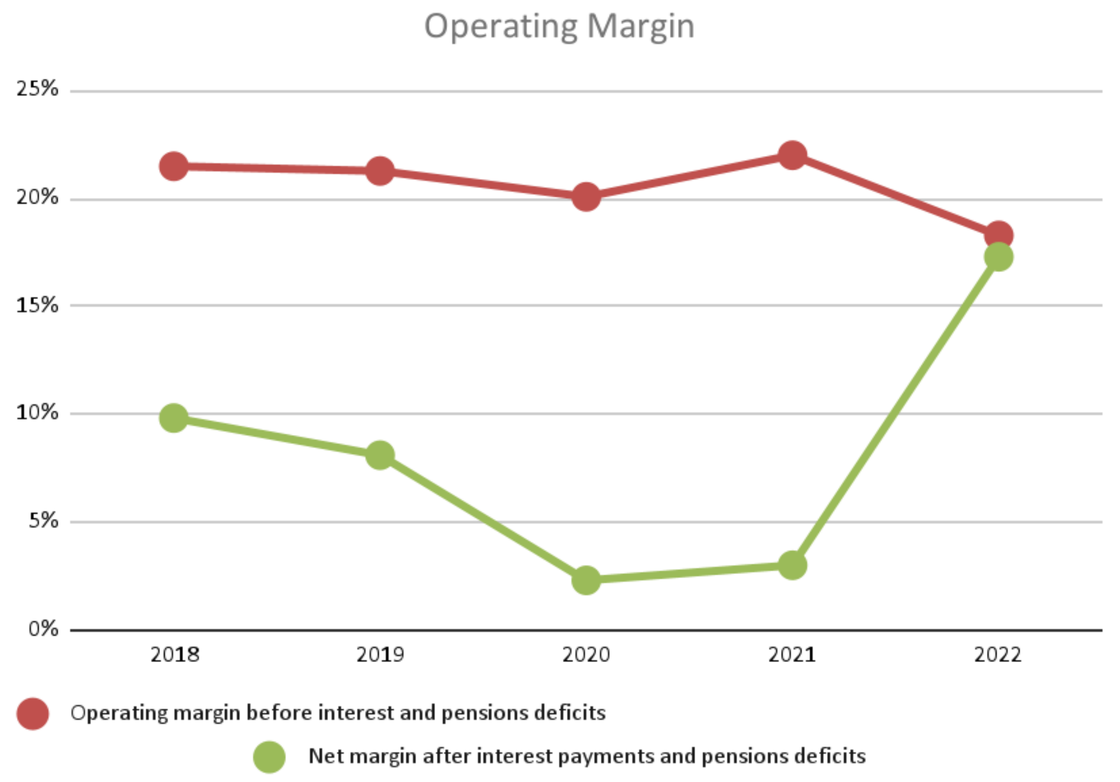
The fifth financial economy measure relates to Turnover, which is also calculated per social housing unit.

Each housing association will be striving to ensure its operating costs for social housing are minimised where possible to help meet its organisational objectives. The graph below shows the relationship between average income per social housing unit and the four cost measures shown above. There is an inherent need for operational surpluses to be achieved on a continuing basis in order to pay interest on loans and attract additional finance to underpin the development of new homes.

The graph below shows the cost breakdown per property and the trend over the last five years. The significant movement in the year is the recovery of operating expenditure to pre-pandemic levels following much-reduced level of major repairs in 2021, which were affected by Covid-19 lockdowns.



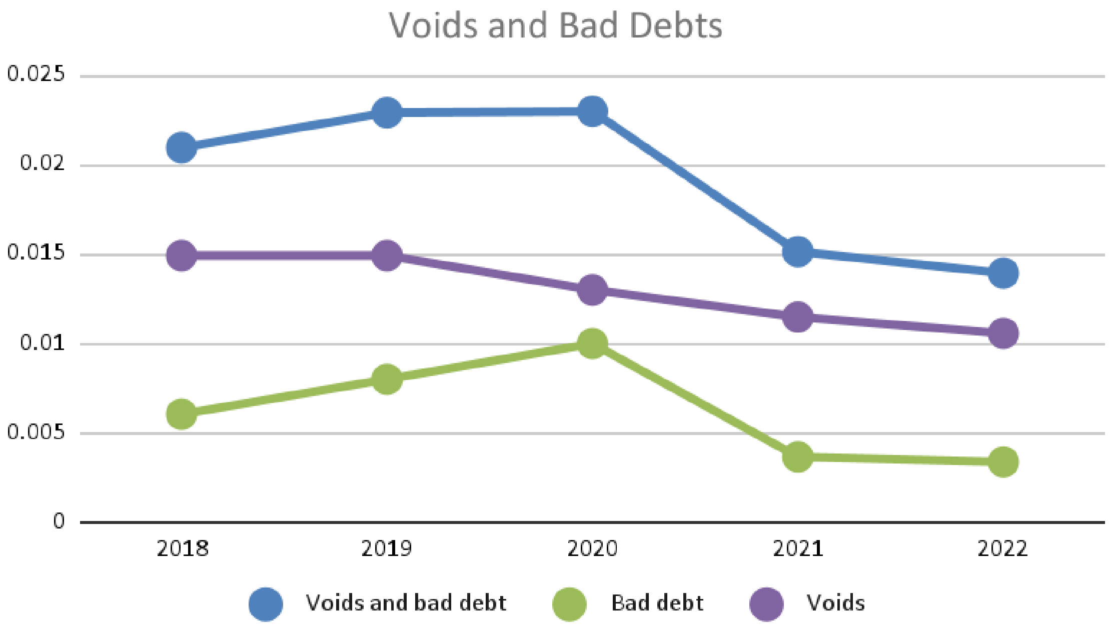
Average turnover per social housing property is the total income from all sources generated by the housing association per social housing home in the year. Average turnover per social housing property has increased to £6,216 (2021 £5,737), an increase of 8%. The cost per property in 2022 (£4,429) has returned to long term trend level. Note that in 2022 the figure was £5,195 and the significant reduction in 2021, which was at £3,751 per property, in all likelihood shows the practical impacts of 2021 Covid lockdowns.



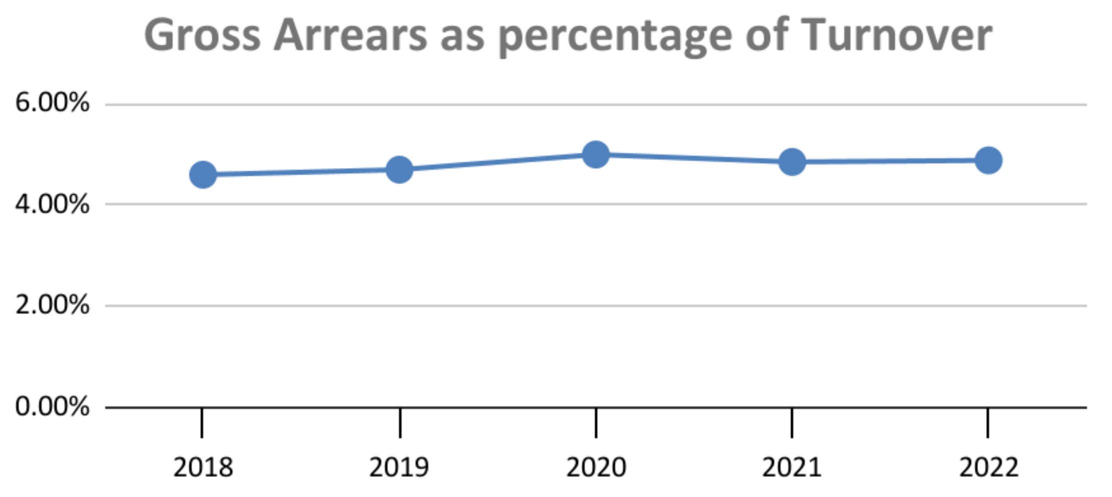
The operating margin of 18% (2021: 22%) has declined but is still broadly in line with the longer term trend. The net margin has improved significantly in the year – this is as a result of positive non-cash actuarial adjustments to pension schemes.

The net margin without this adjustment would be a positive value of 6% (2021: 3.0%).

Three of the five efficiency measures demonstrate how effective housing associations are at minimising financial losses from key processes and this data is set out in the charts below.

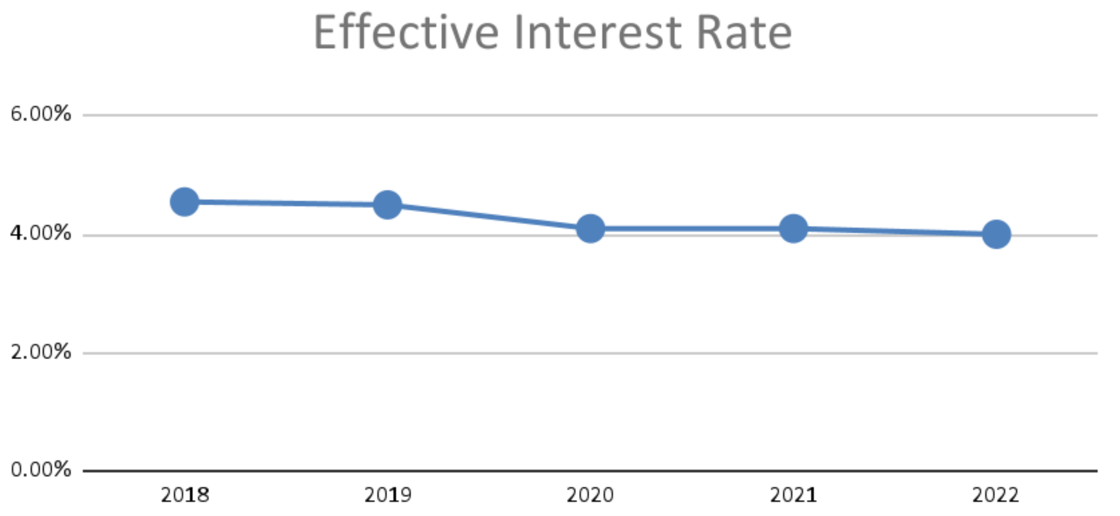


Voids and bad debt totals as percentages of turnover had been relatively stable since 2018 but there has been another year of a slight decline in voids 2022: 1.06% (2021: 1.15%). Bad debts do not appear to have been adversely affected as a consequence of Covid-19 to date, with another year of low bad debt 2022: 0.34% (2021: 0.37%).



Similarly the data shows that there has been little effect of Covid on gross arrears, which has remained at the same level this year 2022: 4.88% (2021: 4..85%), below the long term rate of 5%. The sector has been robustly managing this risk with housing associations monitoring this key metric closely throughout the pandemic.

The pressures arising from Welfare Reform will further crystallize over the next few years as all claimants will transfer across to Universal Credit. By the end of the full roll-out, scheduled for 2023, it is estimated that more than 400,000 households in Wales will be in receipt of the new benefit. Housing associations will continue to support tenants through the transition.



The fourth measure relating to efficiency is the weighted average cost of capital (Effective Interest Rate). This has been stable in 2022 at 4.0% (2021 4.1%) It is calculated as the overall interest rate the sector is paying on the money borrowed to invest in housing, and also reflects the benefit of various refinancing exercises that housing associations have undertaken during the period to benefit from the historically low interest rates available.

The average interest rate is the net effect of many factors. While short term variable interest rates are still low in 2022, many associations are locked into higher priced fixed-rate interest agreements entered into several years ago. Some associations, under their treasury policies, will be fixing facilities at a short term cost in order to manage interest rate risk. Long term loan finance is available through the bond market at relatively low rates so those associations who enjoy low-priced traditional bank finance, yet wish to introduce bond financing arrangements will pay breakage costs to unwind restrictive covenants causing potential increases to their overall weighted interest rate. However, it may be necessary in the future to remove such restrictive covenants and increase flexibility to enable them to borrow funds to support their development programmes.

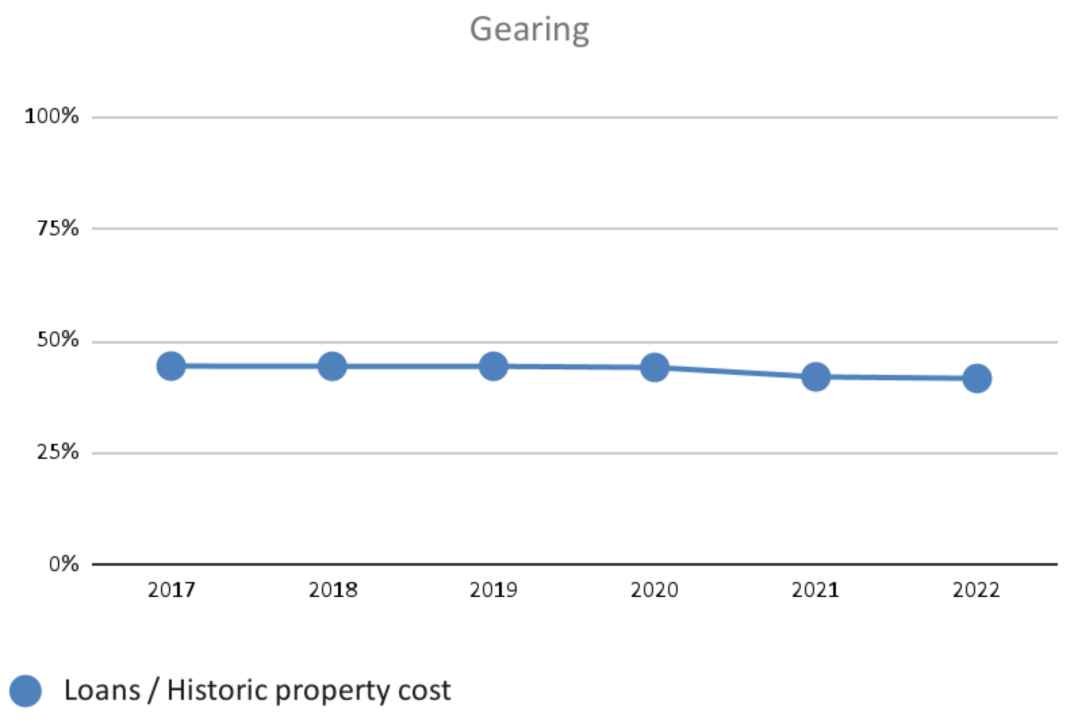
The fifth financial efficiency measure relates to free cash. This identifies whether a business is generating sufficient cash to pay for its day-to-day management and maintenance expenditure, interest payments and component replacements (replacement of items such as kitchens and bathrooms). This is a critical measure for any organisation to help it understand its financial viability and, as such, the Welsh Government requires all housing associations to report it in their annual accounts. The trend over the last three years demonstrates a rise in free cash in the sector. Please refer to the cash flow section for further analysis.

While the efficiency of services, effectiveness and value of outcomes delivered cannot be derived wholly from the Global Accounts this document does highlight the sector's contribution to providing additional homes across Wales.

3,701 (2021: 2,366) social, affordable housing properties were added by the sector during 2022 with further significant developments underway. The ability of the sector to service debt and take on new debt is imperative to meeting the sector target and can partially be indicated by interest cover and gearing ratios. A graphs covering a simple interest cover ratio is included below.

It highlights that there has been a decline in the sector in relation to interest cover in the year with interest cover now standing at 137.1% (2021 164.2% – 2020: 154%). This reflects a return to post pandemic levels of operating expenditure. With interest cover levels above 135% however, the data indicates housing associations continue to have the capacity to service more loans to support further opportunities for development. Housing associations will continue to monitor this key metric closely.

The second graph titled gearing compares borrowings to the net assets of the organisation. Gearing is at 41.8% (2021: 42.1%), so has stayed stable in the year, and has not deviated significantly in a number of years now. This also supports the ongoing resilience of the sector and the capacity to raise further debt.



The assessment of gearing shown above is on a 'historic property cost' basis and compares the loans of housing associations to the depreciated historical cost of the housing properties. T The introduction of Housing Finance Grant (HFG) in recent years means a greater proportion of property cost needs to be funded from loans initially. Therefore, housing associations could soon be approaching the point where half the property cost is funded by loans.

With less than 50% of the property costs funded by loans, associations collectively cannot be considered highly geared, and therefore implies further financial capacity could be available.

This suite of VfM measures contains purely financial value metrics that can be calculated from the financial accounts published by each housing association. However, further work is necessary to develop additional VfM measures to promote transparency and accountability. CHC continually works with the sector to support their work in promoting enhanced transparency including social value accrued through housing association activity. It is also anticipated these financial metrics will be reviewed periodically to ensure they remain relevant and meaningful to the sector, its stakeholders and commentators.

Ensuring the level of rent payable is affordable and equitable is crucial for tenants and for the association's tenant-focussed outlook. During the year the sector has contributed considerable efforts into further understanding affordability issues in more detail, using the Rowntree Foundation Living Rent Model[1] or using in depth financial modelling techniques for example. This VfM data can help support and develop the affordability principle and current activities.

1. *https://chcymru.org.uk/cms-assets/legacy/Local_Affordable_Rent_Setting_Research_Report_-_CHC.pdf*

05 Trend Analysis and VfM Indicators

CHC Global Accounts 2022

Trend Analysis and VfM Indicators

Trend analysis 2019–2022	2022	2021	2020	2019
Growth in turnover	4.50%	4.01%	5.1%	5.4%
Growth in operating costs	9.15%	(0.3%)	7.5%	6.9%
Growth in operating surplus	(11.23%)	11.7%	(0.3)%	0%
Growth in interest paid	7.43%	5.9%	2.9%	(8.6)%
Growth in total fixed assets	5.49%	4.7%	6.2%	5.9%
Growth in long term debt	5.07%	5.06%	9.1%	5.1%
Growth in capital and reserves	15.75%	(3.1%)	7.4%	1.2%
Turnover per employee (£000s)	108	101	98	95
Interest cover	137%	164%	155%	159%
Number of homes	173,937	169,347	166,439	164,821

Value for Money Indicators – annual sector averages	2022	2021	2020
Turnover per social housing unit	£6,216	£5,737	£5,703
Total operating costs per social housing unit	£3,864	£3,418	£3,497
Management costs per social housing unit	£1,471	£1,308	£1,320
Reactive costs per social housing unit	£1,260	£1,138	£1,189
Major repairs & components per social housing unit (Capital)	£917	£681	£796
Major repairs & components per social housing unit (Capital and Revenue)	£1,324	£961	£1,133
Bad debt costs per social housing unit	£24	£28	£52
Weighted average cost of capital	5.1%	4.7%	4.1%
Free cash inflow (outflow) per social housing unit	£599	£787	£52
Gross arrears / social housing turnover	4.6%	4.9%	5.0%
Rental void loss per social housing unit	£91	£96	£73

06
Acknowledgements

Acknowledgements

Community Housing Cymru and Welsh Government would like to thank the following individuals and organisations for their assistance in making this publication possible:

Sarah Prescott
Founder, Redyn Consulting

Julie James MS
Minister for Climate Change, Welsh Government

Andrew Martyn-Johns
Chair, Community Housing Cymru

Ian Walters
Head of Regulation, Welsh Government

Clarissa Corbisiero
Deputy Chief Executive, Community Housing Cymru

Stuart Ropke
Chief Executive, Community Housing Cymru

Borbala Martos
Executive Support Officer, Community Housing Cymru

Welsh Government
Rhydycar, Merthyr Tydfil, CF48 1UZ

Community Housing Cymru
Office 26, 14 Neptune Court, Vanguard Way,
Cardiff, CF24 5PJ