Cartrefi Cymunedol Cymru | Community Housing Cymru

The 2021 Financial Statements of Welsh Housing Associations

Datganiadau Ariannol 2021 Cymdeithasau Tai Cymru

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Foreword

This year's Global Accounts reports on the financial performance of the housing association sector over a period like no other. A year when we were all required to 'stay home' shone a light on the importance of a safe, secure and affordable home. The home became a place where many of us spent more time than ever and so many more aspects of our lives revolved around them.

A solid financial base and resilience meant that housing associations were able to provide support and security to their tenants and work with partners as part of the wider Covid-19 response. At the outset of the pandemic social landlords agreed a protocol to provide their tenants with the confidence and security that their landlord would support them during the pandemic, that their homes would be secure and there would be no evictions as a result of financial hardship caused by the pandemic. As soon as conditions allowed, work to build much needed new social housing resumed and associations worked in new ways to support tenants through difficult times including shifting more services on line and making thousands of welfare calls.

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 secured £626m of private finance in 2021 at competitive rates, demonstrating that the lending community continue to view housing associations as a resilient and efficient sector. This year's Global Accounts continue to demonstrate a focus on value for money, including reductions in gross arrears and bad debts, despite the challenges faced.

2020 showed beyond all doubt that our home matters. It shone a light on existing inequalities, the challenge and shared ambition to end homelessness in Wales and the services that make a difference to people's lives. A strong partnership between the Welsh Government and the housing association sector is critical to achieve our shared ambitions to build thousands of social homes for rent, to make rapid rehousing a reality in Wales and to work together to ensure that the money we spend together in Wales has maximum impact for the communities that we serve.

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 over 40 not-for-profit housing associations and community benefit societies, with members providing 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 31st March 2021.

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 on cost of living and energy costs, supply chain issues, and the War on Ukraine to name a few. Affordability issues for tenants are an increasing issue. Welsh housing associations have successfully overcome many financial challenges in the past. These cumulative skills will need to meet the future with confidence.

2021 key messages and forward-looking information based on sector forecasts

- The sector now owns and manages 169,337 homes (2020: 166,439) with general needs properties and retirement accommodation accounting for 90% of this figure; 151,515 homes (2020: 149,179) homes. This is forecast to increase by over 3,000 homes per annum meaning there will be close to 186,202 homes in the sector by 2026.

- Turnover for the year was £1,109m; an increase of £43m from £1,066m in 2020. Turnover is forecast to rise by 4% per annum to £1,349m by 2026.

- Operating surplus for the year was £238m (2020: £214m). Operating margins are now at 22% for the sector, with similar ratios for both LSVTs and traditional homes.

- Housing fixed asset levels, before depreciation, are now shown at £8.9bn, an increase of 5% from £8.4bn in 2020, a similar year on year rise to the previous year. Housing assets are predicted to rise by an average of 5% per annum to £11.4bn by 2026

- Increased borrowings - the total debt level is now £3.3bn, a small rise from £3.2bn in 2020. Borrowings are forecast to rise at their historic rate of £0.2bn per annum for the next 5 years reaching £4.3bn by 2026. For the first time, 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 4.1% for 2021 (4.1% in 2020).

- Sector gearing on 'Historic Cost basis' is 44%, (2020: 44%).

- Sector gearing on a 'Net Worth' basis is at 62%, the same level as 2020.

- Capital and Reserves levels are now £1.21bn (2020: £1.25bn).
- Directly housing associations continue to employ around 11,000 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 2020 totalling £149m, a substantial increase on the 2020 level of £10m.

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 to become a collection of highly capitalised organisations that own and manage long-term assets supported by long-term financing. Some associations are adopting more commercial tactics to help fulfil their social and charitable objectives - sustaining a key role of supplying new affordable housing has seen some cross-subsidisation initiatives and alternative financial models introduced to extract maximum value from assets whilst mitigating associated risks. 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 when undertaking funding strategies. As the macroeconomy adjusts to significant shocks such as Brexit and Covid-19 these tactics will be constantly reviewed and finessed.

Turnover continues to rise year-on-year underpinned by historically-stable rental income streams. There is a relationship between the money received from Welsh Government and the outputs of Welsh housing associations. It can be expressed as for every £1 received from Welsh Government, the housing associations bring £5.73.

The reported operating surplus of £238m becomes a net loss after all adjustments for the year of £37m. This is primarily as a result of interest payable of £145m and actuarial adjustments to pension schemes of £124m. Without this non-cash actuarial pension adjustment, the surplus would have been £88m or 8%.

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; 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 2020, there was a welcome increase in the net inflow of sector free cash.

During 2021, £626m of new debt facility was arranged, following £527m raised in 2020. 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. For the first time, the majority of debt is no longer with traditional lenders and as the sector adapts to change housing associations cannot rely on favourable interest rates continuing indefinitely. 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 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 just starting to be seen in our communities at the start of this financial year. Covid-19 has had a noticeable impact in a number of areas, for example, maintenance, but these accounts show 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.

Overall the sector's financial performance has been another year 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, in-depth, 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, well-governed and capable to deliver homes and 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 (2020: 34) 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 169,000 homes. Social housing units represent 90% 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 properties.

The sector directly employs on average 11,000 full-time equivalent staff (FTE) 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, and interest expenditure but before loan repayments, investment in new housing stock and related grant receipts.

Overall there has been another year of free cash inflow into the sector totalling £149m (2020: free cash flow: £10m). For traditional associations, the levels have increased to £77m, this is more than the inflow in 2020 of £22m. LSVTs have improved in the year, showing an inflow of £47m in 2021, compared to a cash outflow of £12m during 2020. Overall the inflow in net cash has improved as a result of the increase in operating margins and a large one-off loan breakage cost of £102m reduced the cashflow in 2020.

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.

As LSVTs continue to mature, a greater proportion of their property stock is now compliant with the Welsh Housing Quality Standards (WHQS). As a consequence, the net investment in component replacements within LSVTs is at a mature level and is broadly stable, being £80m in 2021 and £75m in 2020. Component replacement within traditional housing associations has declined in the year, being £30m in 2021 and £43m in 2020.

There has been a considerable decrease in the purchase and development of properties in the year - such investment totalled £397m, a decrease of £90m compared to 2020. Investment is now at a similar level to 2019. The majority of this decrease was in traditional housing associations (who saw a drop of £100m). Now that LSVTs are refinancing their legacy debt they are able to play an increasing role in building new homes and they saw modest growth of £10m in 2021.

There was considerable activity on loans during the year. Loans received within the year totalled £481m, a similar level to the 2020 spend of £530m. This should increase the capacity to build new homes in the future. Loans repaid totalled £336m, an increase of £33m compared to 2020. This increase was broadly and evenly split between refinancing activity and funding new builds. The net increase in the loan portfolio in the year amounted to £155m, slightly less than the net increase in the 2020 portfolio of £198m, but it should be recognised that 2020 did include a number of one-off large refinancing activities.

Cash Flow Statement 2021

	Traditional 2021 £m	LSVT 2021 £m	All 2021 £m	Traditional 2020 £m	LSVT 2020 £m	All 2020 £m
Net cash inflow from operating activities	198	171	**369**	176	102	**278**
Interest paid	[86]	[53]	**[139]**	[107]	[36]	**[143]**
Interest received	1	1	**2**	4	1	**5**
Proceeds from sale of properties	25	5	**30**	18	24	**42**
Taxation	0	0	**0**	0	0	**0**
	138	124	**262**	91	91	**182**
Replacement fixed assets	[7]	[6]	**[13]**	[9]	[4]	**[13]**
Component replacements	[30]	[80]	**[110]**	[43]	[84]	**[127]**
Component grants	1	9	**10**	1	9	**10**
Free cash inflow	102	47	**149**	22	[12]	**10**
Purchase and development of properties	[294]	[103]	**[397]**	[392]	[93]	**[485]**
SHG and other grants received	140	68	**208**	162	48	**210**
Other	[11]	[1]	**[12]**	[4]	0	**[4]**
Net cash outflow from capital expenditure	[165]	[36]	**[201]**	[234]	[45]	**[279]**
Loans received	349	132	**481**	312	215	**527**
Loans repaid	[254]	[82]	**[336]**	[148]	[152]	**[300]**
Other financing income / [costs]	13	[0]	**13**	[7]	[22]	**[29]**
Net inflow from financing activities	108	50	**158**	157	41	**198**
Increase / [decrease] in cash	45	61	**106**	[37]	7	**[30]**

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. It now stands at almost £8bn ie £7,953m, an increase of 5% from the prior period. This follows a longer-term trend of investment, as there was an equivalent increase of approximately 6% in 2020. The 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 fallen in the year. Traditional housing associations invested £31m (2020: £42m) and LSVTs invested £38m (2020:£70m). This is one area where the impact of Covid-19 has been felt in the sector. The requirements of lockdown have made it more difficult to access tenants' homes at pre-pandemic rates in 2021.

During 2020 the sector has continued to invest significantly in building new homes. Such investment for the period totalled £395m, a fall from the 2020 level of £485m, but close to the level of £399m in 2019. 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 the impact of Covid-19 will have been felt as many sites will have suffered delays in the early parts of the year.

At 31st March 2021 the latest available figures showed at least 93% of social housing dwellings were WHQS compliant (including acceptable fails) compared to 90% two years earlier. Excluding acceptable fails, at least 69% of all social housing dwellings were fully compliant with the WHQS for the period.

Some of this development investment continues to be supported by grants whilst the rest is financed by banks and long term institutional investors. The split between grants and institutional support is approximately equal, with grants making up 53% of that investment and is unchanged compared to the previous years.

Working capital

The sector has current assets totalling £1,466m (2020: £1,352m), an increase of £113m from last year. As in 2020, the majority of this is made up of £527m cash (2020: £440m) and debtors due after one year of £649m (2020: £683m). Current liabilities have increased to £549m (2020: £506m), an increase of £43m from 2020. They are made up of short term loans of £143m (2020: £139m) and other creditors of £344m (2020: £304m) in the main.

Net current assets have increased to £917m in 2021 from £846m in 2020, 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 in the year, there has been a slight decrease in rent arrears to 4.9% from 5% of turnover during the year. The sector has been affected by the impact of Universal Credit in recent years. During the lockdown, it has 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. The scale of planned managed migration is set to place significant pressures on vulnerable claimants, support services they rely on and ultimately housing associations 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 £3,205m in long term debt, and £143m in short term loans, and the portfolio now totals £3,348m, an increase of £159m from 2020. 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 last year overall. The proportion of debt relating to LSVTs has increased again to 24% from 21% in 2020 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 £3,588m (2020: £3,388m), an increase of £200m during the year. This increase is also 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 13% of the total (2020: 10%). This increase reflects the increasing LSVT development activity.

Pensions

The overall pensions liability has increased by £135m to £331m. In 2020 pension liability was £195m this was a decrease from £257m in the previous year. 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 that it has shown considerable volatility, positive and negative, year on year. This year the negative effect has been seen on both the SHPS scheme prevalent in traditional housing associations (an increase of £60m) and the LGPS schemes often used by LSVTs (who had a similar increase of £75m). 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 been reduced by £37m (£82m rise in 2020) and now stand at £1,213m. Actuarial adjustments reduced reserves by £124m but the other, non-actuarial activities increased reserves by £86m. The robustness of the sector is demonstrated by the fact that these reserves are equivalent to over 15 years' worth of net surpluses. There has been a reduction in restricted funds during the year from £7m to £5m.

It should not be forgotten that reserves do not equal cash available, but the accounting value of the net assets within the sector. In broad terms, it indicates the investment of the association's own resources in the maintenance of their existing properties and the provision of new affordable homes.

Statement of Financial Position 2021

	Traditional 2021 £m	LSVT 2021 £m	All 2021 £m	All 2020 £m
FIXED ASSETS				
Housing properties at cost	6,789	2,114	8,903	8,448
Depreciation	(873)	(491)	(1,364)	(1,233)
NBV of housing properties	5,916	1,623	7,539	7,215
Intangible assets	3	3	6	7
Commercial property	94	26	120	97
Fixed asset investments	138	5	143	135
Other (including office premises)	108	37	145	141
Total Fixed Assets	6,259	1,694	7,953	7,595
CURRENT ASSETS				
Assets held for sale and stocks	43	9	52	40
Debtors due within one year	146	93	239	189
Debtors due after one year	219	429	649	683
Cash and cash equivalents	321	206	527	440
Total Current Assets	729	737	1,466	1,352
CURRENT LIABILITIES				
Short term loans	(73)	(70)	(143)	(139)
Capital Grants including SHG	(44)	(18)	(62)	(63)
Other current liabilities	(210)	(134)	(344)	(304)
Total Current Liabilities	(327)	(222)	(549)	(506)
Net Current Assets	402	515	917	846
Total Assets less Current Liabilities	6,661	2,209	8,870	8,441
LONG TERM CREDITORS AND PROVISIONS				
Long term loans	(2,481)	(724)	(3,205)	(3,050)
Capital Grants including SHG	(3,139)	(449)	(3,588)	(3,388)
Pension liability	(131)	(199)	(330)	(195)
Other including VAT shelter	(93)	(441)	(532)	(557)
Total Long Term Creditors and Provisions	(5,844)	(1,813)	(7,655)	(7,190)
NET ASSETS	817	396	1,213	1,251

RESERVES				
Income & Expenditure reserve	812	346	1,158	1,195
Restricted reserve	4	1	5	7
Revaluation reserve	1	49	50	49
TOTAL RESERVES	817	396	1,213	1,251

Statement of Comprehensive Income

Turnover

Turnover continued to rise year-on-year with a modest increase of £43m, or 4% resulting in total turnover of £1,109m for 2021 (2020: £1,066m). The rental uplift associations could apply to social housing rents in this year was set at a maximum of 2.7% plus £2, a figure linked to CPI figure at that time. This decision was the first year of a five year settlement agreed with the sector. 63% or £693m (2020: 64% or £682m) of the total turnover is generated by traditional housing associations, a figure broadly consistent with the previous year.

The sector brought in an additional 2,500 social, affordable homes in the year which contributed a significant part of the increase in turnover over and above 2.7%. Also, some, but not all, housing associations, benefited from CJRS ("furlough"), which is required to be accounted for within turnover. This is the other element explaining the increase above 2.7%. The decision to apply for CJRS will have taken at an individual housing association level and will have depended on their business plan, unique financial characteristics and the safety of staff members. The overall impact on furlough has been relatively modest for the sector. The safety of tenants, people supported and staff will have been a critical factor in furlough decision making and in decisions about people throughout the year.

Operating Surplus

Operating surplus for the sector was £238m, an improvement on the prior year (2020: £214m). This figure includes profits on sales of fixed assets. Traditional housing associations operating surplus increased to £151m (2020: £137m), and LSVT operating surplus also increased to £87m (2020: £77m).

The operating margin was 22%, an improvement from the 2020 level of 20%. Traditional housing associations improved their operating margin to 22% (2020: 20%), with LSVTs showing a similar improvement to 21% (2020: 20%). As LSVTs mature and take on more development activity the business models of the two types of housing associations are increasingly converging.

The need for operational surpluses to be achieved, on a continuing basis, allows 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 £5m (2020: £25m), representing 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 increased to £138m from £131m in 2020. Interest payable decreased within traditional housing associations to £92m (2020: £94m) and for LSVTs increased to £46m (2020: £37m). This again reflects the increasingly important development activity within the LSVT cohort.

The effective interest rate for the sector as a whole was 4.1%, the same level as last year (2020: 4.1%). The average rate within traditional housing associations has remained low and declined again in 2021, which is now at 3.6% (2020: 3.7%). Traditional housing associations are experienced in managing value for money portfolios The average rate within LSVTs rose slightly to 5.8% (2020: 5.5%). 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.

Whilst effective interest rates have declined, it is worth noting that there were some one-off breakage costs relating to the exiting from loans totalling £9m in the year, within LSVTs. There should be significant benefits in flexibility and reduced future interest costs for those housing associations that have refinanced.

Actuarial movement on Pension Schemes

In 2021 there was a £125m non-cash actuarial loss in respect of pension schemes. This more than wiped out the positive non-cash actuarial gain of £64m shown in 2020. These actuarial losses were prevalent in both SHPS and LGPS schemes.

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 worthy of note 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.

Income & Expenditure 2021

	Traditional 2021 £m	LSVT 2021 £m	All 2021 £m	All 2020 £m	All 2019 £m	All 2018 £m
Turnover	696	413	1,109	1,066	1,006	954
Operating costs	(546)	(330)	(876)	(878)	(817)	(764)
Surplus on disposal of fixed assets	1	4	5	26	25	15
Operating surplus	151	87	238	214	214	205
Interest receivable and other income	6	1	7	9	9	7
Interest payable and similar charges	(92)	(46)	(138)	(131)	(127)	(139)
Exceptional items relating to breakage costs	(0)	(9)	(9)	(77)	0	0
Pension scheme net financing (loss) / gain	(2)	0	(2)	9	(12)	0
Fair value movements increase / (decrease)	4	(8)	(4)	1	1	3
Surplus for the year before tax	67	25	92	25	85	76
Corporation tax	(0)	0	(0)	(1)	(2)	0
Transfer from / (to) reserves	8	(5)	3	(3)	1	0
Surplus for year after tax and transfers	75	20	95	21	84	76
Actuarial (loss) / gain on pension schemes	(69)	(56)	(125)	64	(66)	15
Prior year adjustments	(22)	15	(7)	(1)	(3)	(1)
Transfer to general reserves	(16)	(21)	(37)			
Accumulated general reserves brought forward	828	367	1,195			
Accumulated general reserves carried forward	812	346	**1,158**			

Income and expenditure analysis

	2021 Turnover £m	2021 Operating costs £m	2021 Operating surplus/ (deficit) £m	2020 Turnover £m	2020 Operating costs £m	2020 Operating surplus/ (deficit) £m
General Needs Housing	£761	-£632	£126	£778	-£639	£139
Supported Housing	£77	-£58	£19	£59	£52	£7
Social Housing Totals	**£837**	**-£690**	**£147**	**£837**	**-£691**	**£146**
Non Social Housing	£272	-£186	£86	£229	-£187	£42
Subtotal	£1,109	-£876	£233	£1,066	-£878	£188
Surplus on sales of fixed assets			£5			£26
Total All Activities	**£1,109**	**-£876**	**£238**	**£1,066**	**-£878**	**£403**

Operating surplus analysis

	2021 Traditional £m	2021 LSVT £m	2021 All £m	2020 Traditional £m	2020 LSVT £m	2020 All £m
Social Housing	£68	£79	£147	116	30	146
Non Social Housing	£82	£4	£86	17	25	42
Surplus on sales of fixed assets	£1	£4	£5	4	22	26
Total All Activities	**£151**	**£87**	**£238**	**137**	**77**	**214**

Income & Expenditure 2020 analysis

Homes in Management 2021

ALL ASSOCIATIONS	2021	2020	2019	2018	2017
General needs and sheltered housing	**143,772**	141,592	139,979	138,001	137,349
Supported housing	**7,743**	7,587	7,500	7,353	6,967
Student accommodation	**3,924**	3,970	3,970	4,035	4,102
Shared ownership / Homebuy / LCHO	**2,615**	2,456	2,951	2,907	2,610
Leasehold	**5,920**	6,608	6,606	6,568	6,493
Other	**5,320**	4,226	3,815	4,119	3,115
	169,337	166,439	164,821	162,983	160,636
TRADITIONAL					
General needs and sheltered housing	**75,279**	74,887	73,309	71,558	70,900
Supported housing	**6,226**	6,069	5,926	5,734	5,325
Student accommodation	**3,924**	3,970	3,970	4,035	4,102
Shared ownership / Homebuy / LCHO	**2,459**	2,302	2,794	2,743	2,443
Leasehold	**2,240**	2,361	2,442	2,246	1,922
Other	**3,770**	3,970	3,613	4,042	3,020
	93,951	93,559	92,054	90,358	87,712
LSVTs					
General needs and sheltered housing	**68,493**	66,705	66,670	66,443	66,449
Supported housing	**1,517**	1,518	1,574	1,619	1,642
Shared ownership / Homebuy / LCHO	**156**	154	157	164	167
Leasehold	**4,281**	4,247	4,164	4,322	4,571
Other	**1,550**	256	202	77	95
	75,997	72,880	72,767	72,625	72,924

Overall the sector has increased its units in management to 169,337 from 166,439 representing a net increase of 2,898 (2020: increase of 1,618) in the year. General needs and sheltered housing increased by 2,180 and supported housing increased by 156 meaning the total social, affordable increase during 2021 equated to 3,054. There was a slight increase in Shared Ownership / Homebuy and LCHO of 159 whilst other classifications slightly increased by 360.

When comparing traditional housing association and LSVT units it is worth noting that a merger in the year has had the effect of transferring approximately 1,600 homes to the LSVT category from traditional housing associations. After allowing for this, traditional housing associations added 884 homes. LSVTs on the other hand contributed 240 new homes, around 21% of the total delivery, as they start to grow their development aspirations.

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

Response to Covid-19

The global pandemic was just starting to affect the Welsh social housing sector at the start of this financial year. As this report has demonstrated, there have been a number of material effects to the sector, for example, a reduced level of component expenditure and the small take-up of furlough. Despite this, the operating margins have increased slightly in the year, demonstrating the agility and resilience of the sector.

As reported in the Welsh Government July 2021 business continuity survey[1] housing associations are continuing to report that pressures are being managed. The regulation team will continue to discuss any performance outliers with the housing association concerned and agree on any appropriate actions. Health and safety compliance has improved again, losses from empty properties have been reduced and repairs performance remained steady.

1 – gov.wales/sites/default/files/publications/2021-08/registered-social-landlords-business-continuity-survey-june-2021.pdf

04 Value for Money (VfM)

Value for Money (VfM)

The principal purpose of housing associations is to provide affordable housing, and to do this it is vital that best use is made of income they receive, including grants and state benefits, that 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 recognition of this the Independent Regulatory Board for Wales, responsible for overseeing the regulation of Welsh housing associations, has welcomed the sector's continuing focus on Value for Money assessment. 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.

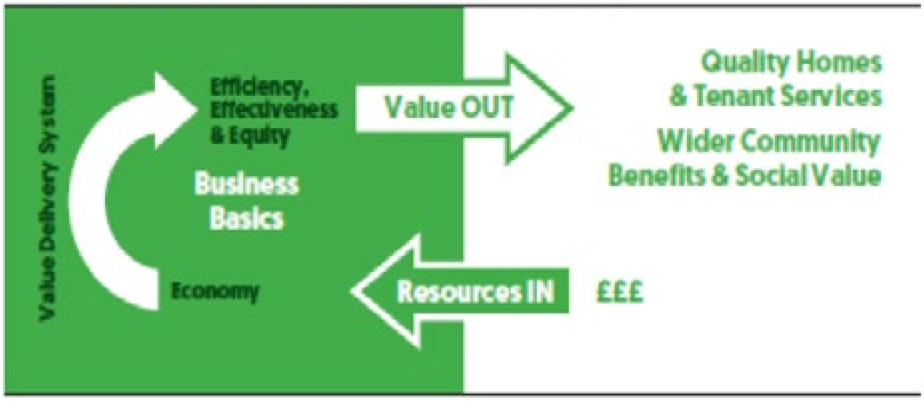
Value for Money is generally considered to cover three elements; economy, efficiency and effectiveness and can be summarised as:

- Economy – doing things at the 'best price'
- Efficiency – minimising waste and doing things the 'best way'
- 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.

Diagram.1 - A model for understanding VFM in Wales



It is important to identify appropriate measures that demonstrate the delivery of these elements:

- 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.***

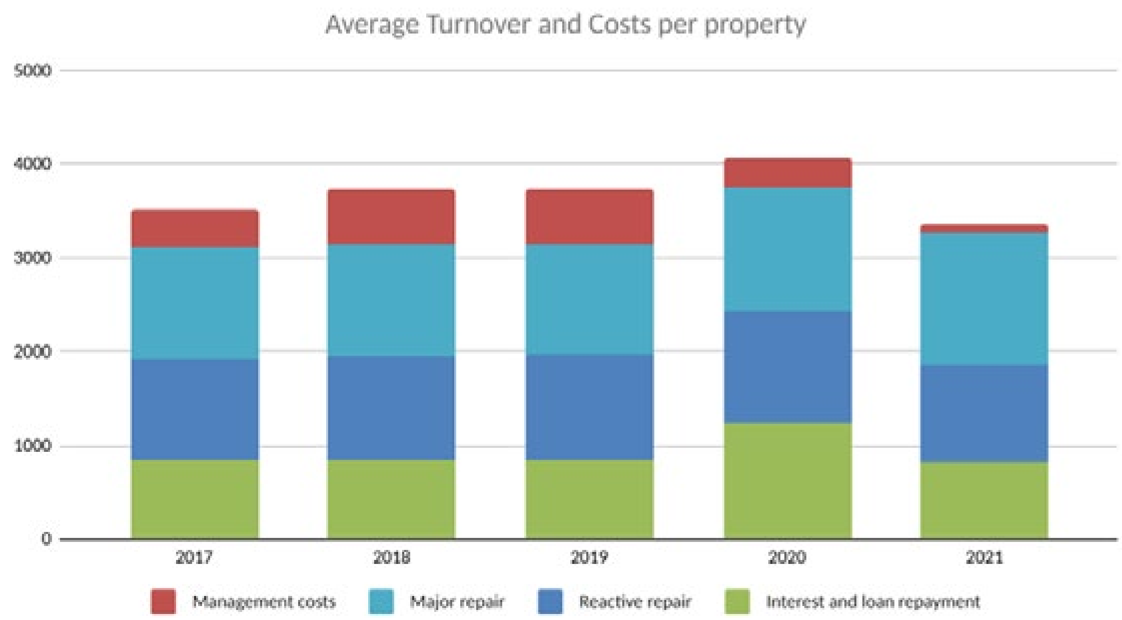
Four of the financial economy measures relate to costs and are calculated per social housing unit:

- Operating costs
- Management costs
- Reactive repair costs
- Major repair costs

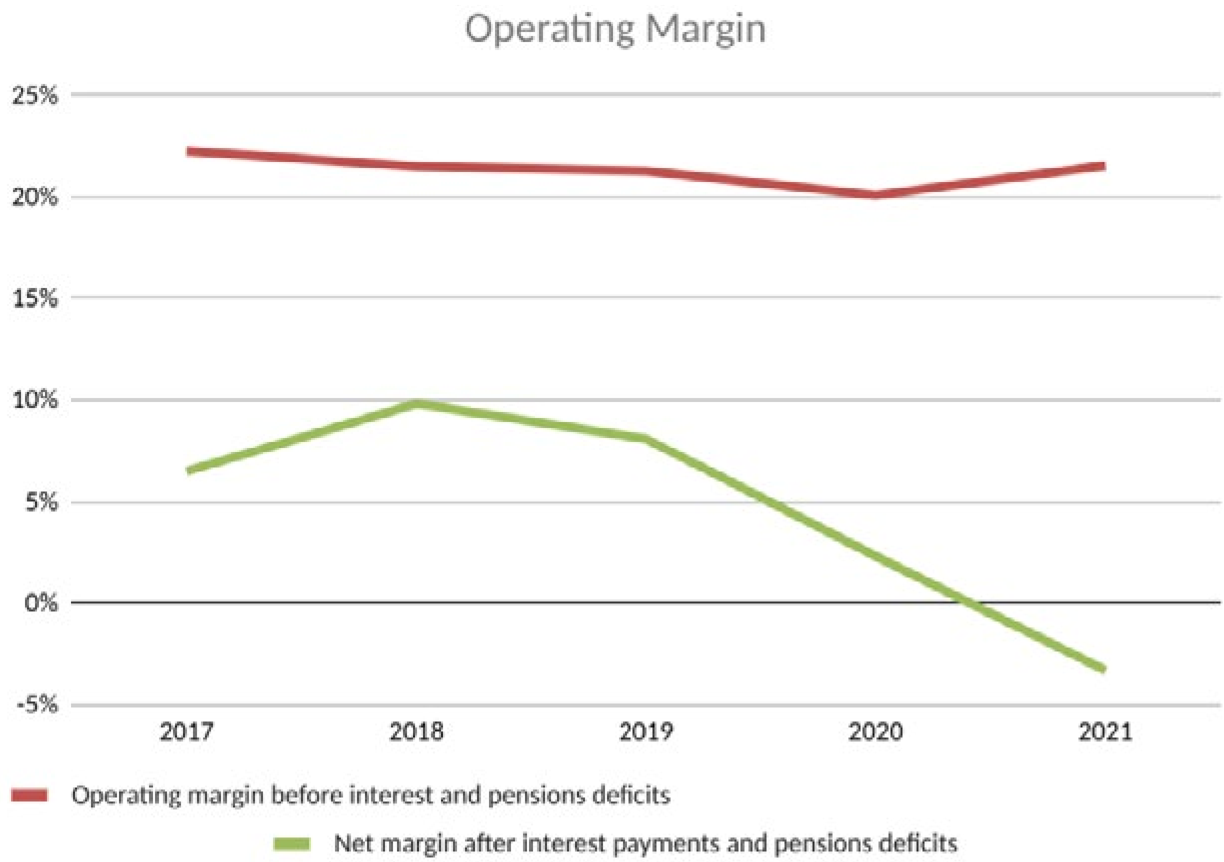
The fifth financial economy measure relates to Turnover, which is also calculated per social housing unit.

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 much-reduced level of major repairs, which have been affected by Covid-19 lockdowns impeding such programmes. Interest and loan repayments had a number of one-off refinancing costs in 2020.

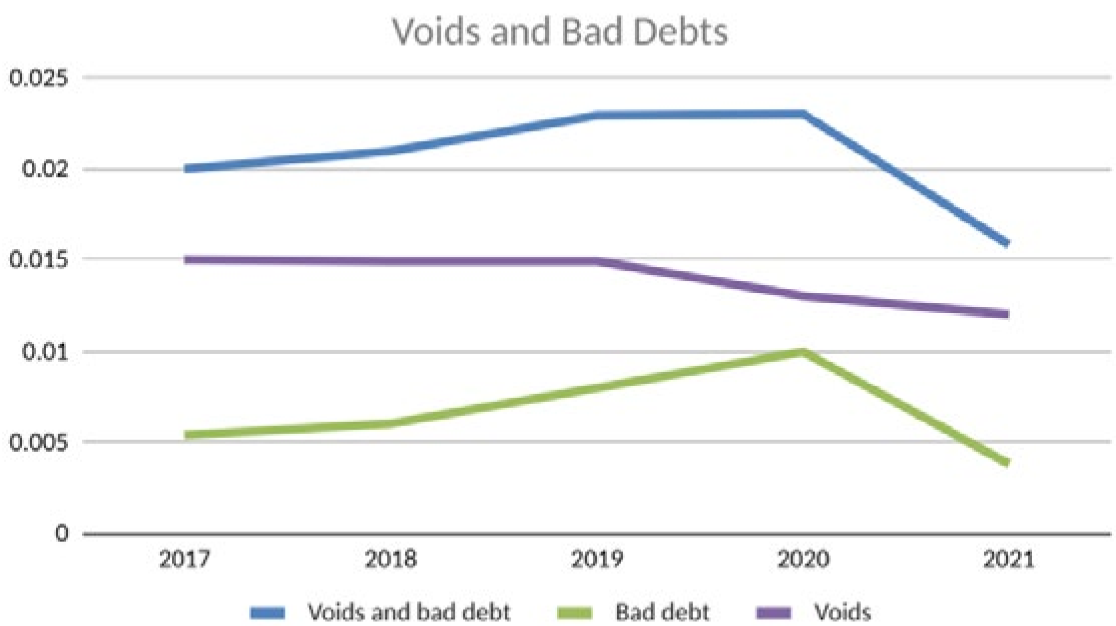


Average turnover per social housing property has increased very slightly to £5,737 (2020: £5,703), an increase of 1%. This small increase demonstrates that the majority of the increase in turnover is as a result of new homes.

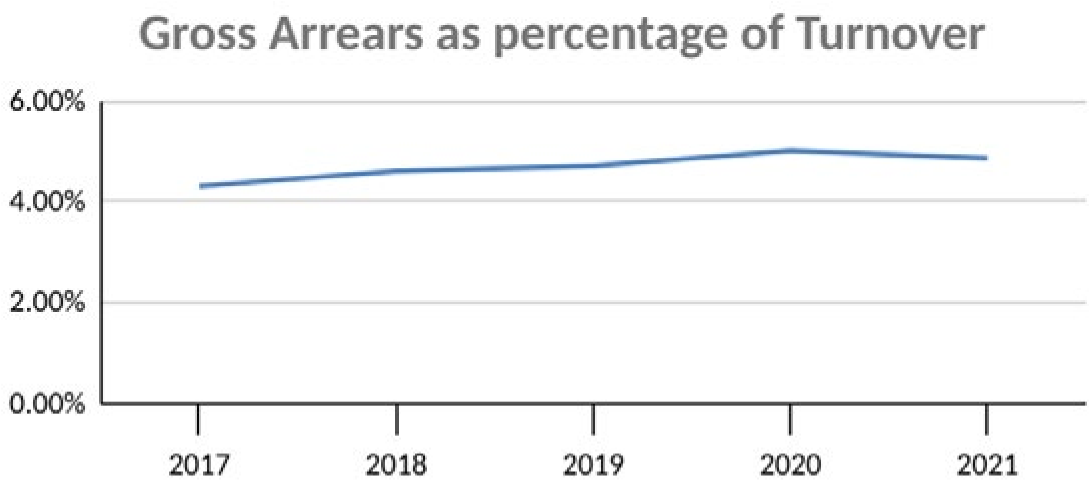


The operating margin of 22% has improved slightly (2020: 20%) and is broadly inline with the longer term trend. The net margin has declined to a negative situation in 2021 as a result of the non-cash actuarial adjustments to pension schemes. The net margin without this adjustment would be a positive value of 3.0%, slightly better than the 2020 equivalent of 2.3%.

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.

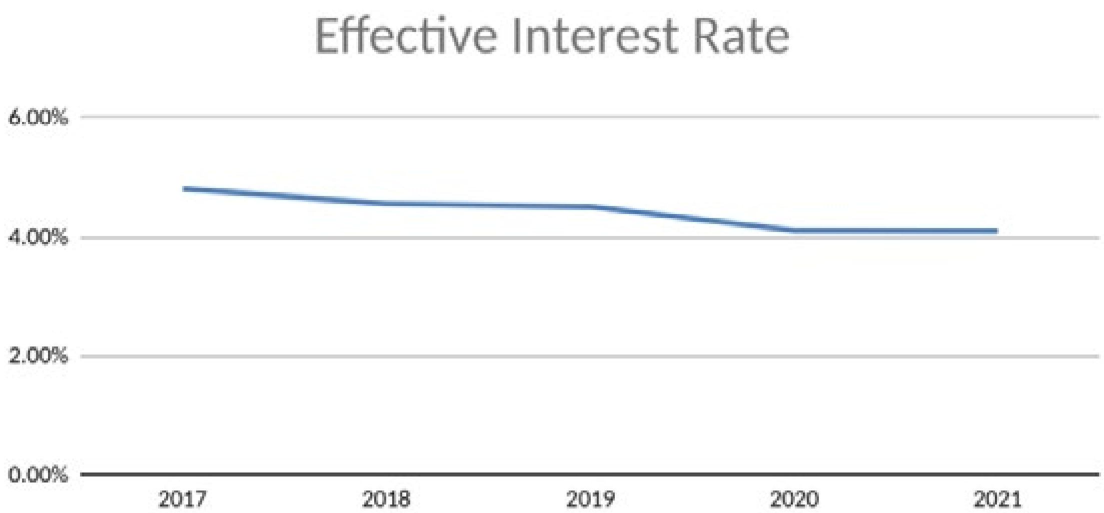


The voids and bad debt totals as percentages of turnover had been relatively stable since 2017 but there have been some welcome changes in bad debts, falling to a historic low of 0.38% (2020: 1.0%). Voids are now at 1.2% (2020: 1.3%), another year of gentle decline. Bad debts do not appear to have been adversely affected as a consequence of Covid-19 to date.



The data for gross arrears as a percentage of turnover has levelled off in the year and is now at a relatively stable trend of around 5% (2021: 4.9%, 2020: 5.0%). The sector has been robustly managing this risk with housing associations monitoring this key metric closely throughout the pandemic. These 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) and this increased in 2021 to 4.76%. (4.1% in 2020). 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 low, 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.

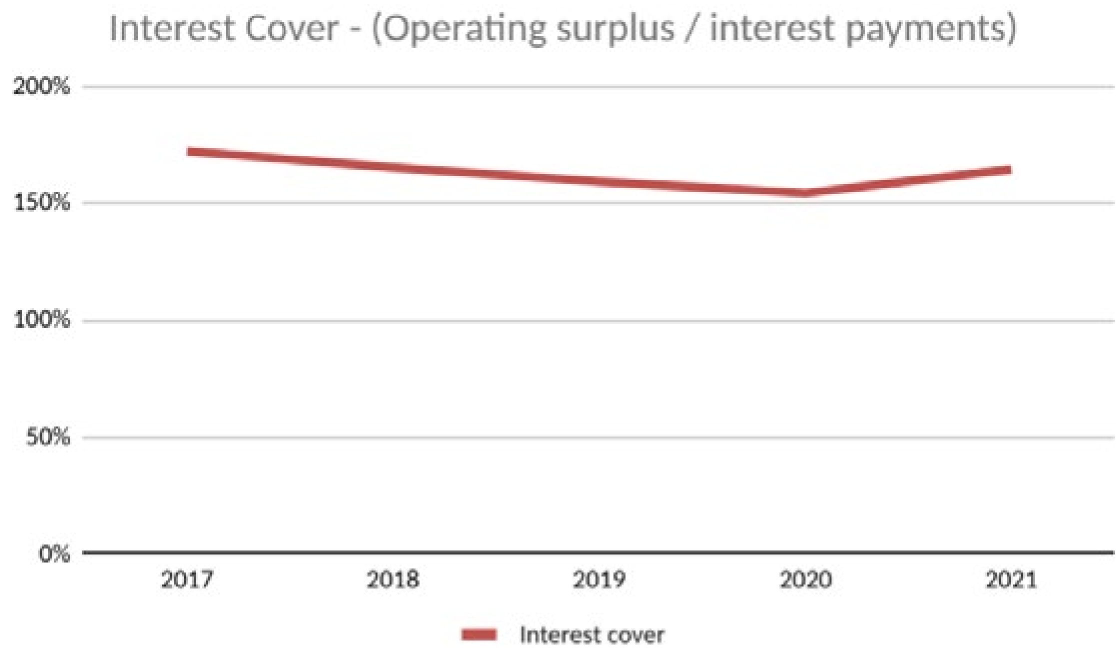
In July 2017 it was announced that the London Interbank Offered Rate (LIBOR) will no longer be published in 2021. This will be replaced with the Sterling Overnight Index Average (SONIA). Housing associations have been addressing this and as of the issue of this report will have worked closely with funders overcoming periods to ensure any emerging risks are mitigated and borrowing arrangements are not compromised.

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.

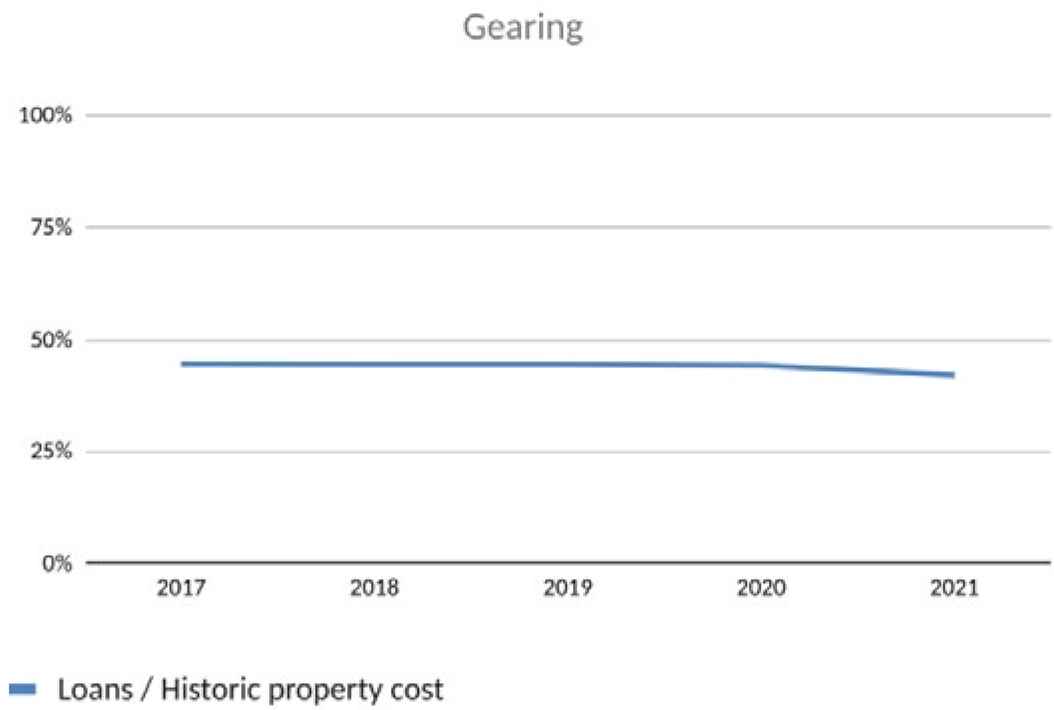
While the efficiency of services, effectiveness and value of outcomes delivered cannot be derived wholly from the Global Accounts this document does highlight the sector's contribution to providing additional homes across Wales.

2,366 social, affordable housing properties were added by the sector during 2021 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.

The following graph below, interest cover, reports the ratio of cash generated by operations compared to the interest payable on borrowings, and provides an indicator of ongoing resilience demonstrated by the sector to meet development commitments. It shows that the sector has increased its financial resilience in the year with interest cover now standing at 164.2% (2020: 154%). With interest cover levels above 150% however, the data indicates housing associations continue to have the capacity to service more loans to support further opportunities for development.



The second graph, gearing, compares borrowings to the net assets of the organisation. Gearing has reduced slightly in the year, and has not deviated significantly in the number of years now. This also supports the ongoing resilience of the sector and also supports 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. This level of gearing has been stable for a number of years and in 2021 was 42.1% (2020: 44.2%). 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 potentially soon approach 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, particularly as the sector responds and adapts to Covid-19. 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. This VfM data can help support and develop the affordability principle.

05 Private Finance Summary

Current sector funders

	2021 Loan Drawn	2021 Loan Outstanding	2021 Loan Undrawn	2021 Loan Outstanding and Undrawn	2020 Loan Outstanding and Undrawn	2021 Rank	2020 Rank
Barclays	286	269	303	572	605	1	1
RBS / Nat West	300	270	153	423	373	2	2
Lloyds / HBOS	281	258	110	368	356	3	3
M&G	329	325	-	325	295	4	5
THFC	323	323	-	323	337	5	4
Santander	139	134	124	257	261	6	6
Nationwide	258	208	15	223	230	7	7
Principality	235	177	18	195	202	8	8
blend	165	165	25	190	110	9	11
Public Bond	175	175	10	185	185	10	9
BAE Systems Pension Fund	150	150	25	175	150	11	10
Pension Insurance Corporation (PIC)	66	66	72	138	35	12	23
Aviva	62	62	45	107	10	13	29
Affordable Housing Finance (AHF)	101	101	-	101	101	14	12
Legal & General	95	95	-	95	95	15	13
Scottish Widows	39	39	50	89	39	16	21
Mor Homes	73	72	-	72	62	17	15
Sun LIfe	65	65	-	65	65	18	14
Pension Protection Fund	50	50	15	65	-	19	n/a
Handelsbanken	30	30	20	50	54	20	16

	2021 Loan Drawn	2021 Loan Outstanding	2021 Loan Undrawn	2021 Loan Outstanding and Undrawn	2020 Loan Outstanding and Undrawn	2021 Rank	2020 Rank
Rothesay Life	50	50	-	50	50	21	18
EIB	37	37	-	37	51	22	17
Dexia	60	36	-	36	50	23	19
Orchardbrook	53	34	-	34	36	24	22
Westbourne Capital	31	31	-	31	-	25	n/a
Triodos	19	19	10	29	32	26	24
Standard Life	26	25	-	25	25	27	25
GB Social Housing	24	24	-	24	24	28	26
Yorkshire BS	15	14	-	14	40	29	20
Unity Trust	13	11	-	11	11	30	28
Housing Securities Ltd	7	6	-	6	6	31	30
Clydesdale	5	5	-	5	20	32	27
Cooperative	5	3	-	3	4	33	31
CAF	3	3	-	3	-	34	n/a
Bank of Ireland	2	-	-	-	-	35	32
	3,571	**3,330**	**994**	**4,324**	**3,912**		

New Debt

2021 continued to see significant treasury activity in Wales with 12 RSLs arranging a total of £626m in new facilities, a 19% increase on the 2020 figure.

The net rise in the total amount of outstanding loans and undrawn facilities in 2021 was £412m, increasing from £3,912m to £4,324m, indicating that two thirds of the new finance raised was for additional borrowing with the remainder used to restructure existing loan portfolios. The net increase in facilities of £412m was the highest since 2011, when a number of new LSVTs were formed.

The average cost of borrowing for the £492m of long term deals arranged in 2020/21 was 2.62%, down from 2.92% in the previous year. The average length of debt for these new long term deals was 33 years, up from 27 years last year. The average length of debt for the sector as a whole is currently 20 years.

Continuing the trend of recent years, new funders continue to be attracted to Wales with the Pension Protection Fund, Westbourne Capital and CAF Bank funding to the sector for the first time. With 79% of the new facilities coming in the form of private placements or bond issues the established trend of

RSLs seeking alternative types of longer term funding continues. However there also remains an active market with banks, typically providing shorter term Revolving Credit Facilities (RCF). There are currently 25, 78% of RSLs using RCFs with combined facilities of £820 million. This has increased by £147 million, 22% in the past year. £230 million, 28% of these facilities are currently being utilised. A full list of new facilities secured in the last 2 years is provided in the table below;

	2021	2020
Aviva	98	-
BAE Systems	25	40
Barclays	10	15
blend	80	40
CAF	3	-
Clydesdale	-	5
GB Social housing	-	8
Handelsbanken	-	25
Lloyds	30	-
M&G	30	-
MOR Homes	10	-
Nationwide	5	-
Rothesay	-	50
Principality	7	45
Penarian Bond	-	25
Santander	-	30
Lloyds	13	23
L&G	-	95
PIC	103	-
Pension Protection Fund	65	-
Scottish Widows	50	39
THFC	-	32
Triodos	8	-
RBS	58	55
Westbourne Capital	31	-
	626	527

With 3 new entrants providing £100 million of the new facilities in 2021 the trend of increasing diversity in the source of funding for the sector continues. The largest 5 funders now provide 46% of total funding, down from 58% 4 years ago.

For the first time the banking sector is no longer the major provider of finance in Wales, with the use of private placement and bond finance now accounting for 55% of the facilities provided, up from 26% four years ago.

Nature of Debt

The proportion of debt that is fixed has risen significantly in the last year and is currently at 83%, up 5% on 2020. This is the highest proportion in the last 10 years, no doubt linked to historically low interest rates. The repayment date for these tranches of fixed rate debt is spread evenly over the next thirty years, with 19% due to end in the next 10 years, as illustrated in the table below.

Similarly, the Bullet Repayment debt, paid in full at the end of the loan term, is also spread over the next thirty years with over two thirds profiled for repayment in more than 15 years.

The use of long term fixes does provide the sector with a degree of certainty on forecast borrowing costs. Given the current debt levels and the profiles shown below the sector is, to a reasonable degree, protected against future interest rate rises.

Based on the outstanding borrowings held by associations at the year end the average cost of borrowing is currently 3.8%, down on 4.0% last year and 4.3% in March 2019. The current cost of borrowing for LSVTs is 4.3% (2020: 4.5%) and 3.7% (2020: 3.9%) for traditional housing associations. Within the LSVTs there is a large variation in the cost of borrowing between those who have refinanced away from their pre-transfer loan agreements where the average cost of borrowing is 3.6% and for those who are essentially operating within their pre-transfer deals who average 6.2%. Obtaining these lower rates has resulted in significant one off costs to buy out of uncompetitive fixed deals.

The overall interest paid by the sector was £137m, a rise of £7 from £130m in 2020. The effective interest rate for the sector, (after netting cash balances off against the total debt) for 2021 was 4.1% (4.1% in 2020).

Although bond yields and interest rates remain at, or close to, historically low levels, Associations cannot rely on favourable interest rates continuing indefinitely. Effective treasury management and comprehensive business plan stress-testing will help associations manage risk accordingly.

This suite of information in the Global Accounts shows that associations continue to remain well-placed to service financial commitments as they fall due.

06 Trend Analysis and VfM Indicators

Trend analysis 2018- 2021	2021 All	2020 All	2019 All	2018 All
Growth in turnover	4.01%	5.1%	5.4%	4.9%
Growth in operating costs	(0.3%)	7.5%	6.9%	6.2%
Growth in operating surplus	11.7%	(0.3)%	0%	0%
Growth in interest paid	5.9%	2.9%	(8.6)%	1.6%
Growth in total fixed assets	4.7%	6.2%	5.9%	5.1%
Growth in long term debt	5.06%	9.1%	5.1%	2.5%
Growth in capital and reserves	(3.1%)	7.4%	1.2%	8.4%
Turnover per employee (£000s)	£101	£98	£95	£92
Interest cover	164%	155%	159%	165%
Number of homes	169,347	166,439	164,821	162,983

Value for Money Indicators – annual sector averages

	2021	2020	2019
Turnover per social housing unit	£5,737	£5,703	£5,507
Total operating costs per social housing unit	£3,418	£3,497	£3,344
Management costs per social housing unit	£1,308	£1,320	£1,284
Reactive costs per social housing unit	£1,138	£1,189	£1,144
Major repairs & components per social housing unit (Capital)	£681	£796	£887
Major repairs & components per social housing unit (Capital and Revenue)	£961	£1,133	£1,233
Bad debt costs per social housing unit	£28	£52	£35
Weighted average cost of capital	4.7%	4.1%	4.5%
Free cash inflow (outflow) per social housing unit	£787	£52	£484
Gross arrears / social housing turnover	4.9%	5.0%	4.7%
Rental void loss per social housing unit	£96	£73	£72

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