2016 Global Accounts of private registered providers

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Homes and Communities Agency

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Introduction

The 2016 Global Accounts of Registered Providers (Global Accounts) provides a financial overview of the social housing sector based on an analysis of the regulatory financial returns of private registered providers. Within this publication, private registered providers of social housing (primarily housing associations) are referred to as 'providers'.

The majority of large providers are part of a group structure. Group structures can include multiple registered providers and non-registered entities. For the first time, this publication considers providers' accounts on both a registered entity (entity level) and group consolidated basis (consolidated level).

The social housing sector is diverse in both the size of providers that operate within it and the range of activities each undertakes. In total there are around 1,500 active providers, of which the majority, have fewer than 250 homes. This publication is concerned with the financial analysis of the providers which own or manage at least 1,000 social homes, representing more than 95% of the sector's stock.

The provision of homes for rent is the main activity for the majority of providers. Increasingly, many also provide homes for ownership, thereby generating income from the sale of homes. This type of activity exposes providers to a different risk profile to that for traditional renting and has changed the financial profile of a number of providers.

Further differences exist between providers in their degree of exposure arising from specialist housing provision. Whilst the majority of providers have some specialist supported housing or housing for older people, there are a small but significant number of primarily specialist providers. These providers face additional challenges in competing for care and support contracts from local authorities and other public bodies.

A number of providers undertake a significant amount of non-social housing activity. This activity is concentrated in a small number of large providers and is often delivered in non-registered elements of groups. The materiality of non-social housing activity delivered in unregistered entities has increased in recent years.

The Global Accounts presents a financial review of 2016 in Part A. The aggregate financial statements are included in Part B. The remainder of the document (Part C) contains notes to the primary statements showing further detail of key entries and balances.

Following a change in accounting standards the 2016 accounts of registered providers were compiled under Financial Reporting Standard 102 (FRS102) and the Housing Statement of Recommend Practice 2014 (SORP 2014). In the 2016 accounts, providers were required to restate 2015 figures. Part C concludes with a note reconciling financial statements published in the 2015 Global Accounts with the restated figures referenced throughout this document.

In June 2016 the regulator published 'Delivering better value for money: understanding differences in unit costs[1]'. The publication included cost data from the Global Accounts 2015 and defined a 'headline social housing cost per unit'. In the Annex to this document, the analysis is updated based on the regulatory financial returns received in 2016.

[1] Delivering better value for money: understanding the difference in unit costs, HCA, June 2016

Executive summary

The 2016 Global Accounts show that the sector delivered a solid year of investment underpinned by a strong in-year financial performance. Around £7.5bn was invested in new and existing housing properties as the sector continued to leverage the surpluses it generated on its trading activity. Of this, around £5.4bn was invested in new supply and the sector reported the completion of 42,000 social homes.

Macroeconomic conditions were favourable in the year, with a robust housing market and continued low interest rates being beneficial to financial performance. An intention to reduce social rents by 1% per annum for four years was announced in the July 2015 budget. Although this was not implemented until April 2016, many providers began the process of identifying mitigating actions and adapting business plans during the period.

Turnover increased in the year by 8% to £20.0bn. The operating margin improved as costs increased by less than revenues. Social housing lettings income comprises three quarters of total turnover and in 2016 rent increases for existing stock of 2.2% were set by a formula linked to inflation. Newly developed rental properties and stock transferred from local authorities further increased rental income in the year.

For the first time, the Global Accounts set out consolidated group, as well as entity level, data providing a clearer view of activity, such as open market sales, which typically takes place in unregistered subsidiaries. The development of new properties for both shared ownership and outright sale increased markedly in 2016. Total turnover from this activity was £2.8bn, a 39% increase on the previous year. Shared ownership sales are concentrated in a small number of providers with more than 50% of turnover attributable to 18 providers. The degree of concentration is even greater in respect of properties developed for outright sale, where more than three quarters of turnover is reported in 14 provider groups.

At a consolidated level, debt increased by £2.2bn in the year to £66.7bn. The majority of debt held by the sector is in the form of bank loans. However, funding from the capital markets continues to be the primary source of new debt. The cost of debt remained stable and interest cover increased from 153% in 2015 to 170% in 2016. With total debt at 20 times the reported surplus, strong interest cover is required to support continued investment.

The accounts published in 2016 were the first under the new reporting standard and SORP 2014. The terminology used in financial statements has changed. The income and expenditure account is now named the Statement of Comprehensive Income (SOCI) and the balance sheet is referred to as the Statement of Financial Position (SOFP).

The new reporting standards have changed the presentation of the financial statements. Changes include different accounting treatments for government grant, the valuation of housing properties and the measurement of financial instruments.

The publication also updates the regulator's analysis of 'headline cost per unit' which provides a consistent and robust general measure of costs across providers. In 2016 average headline costs per unit were £3,970 per annum, an increase of 1.0%. Headline costs per unit are projected to fall by 12.4% between 2016 and 2020 in real terms.

In aggregate, financial performance is strong, which means the sector as a whole is well placed going into the four-year period of rent cuts and projected cost savings. However, the performance of individual providers varies significantly and is masked by the aggregation of data. The regulator monitors the financial position of all providers and where necessary engages with individual organisations to gain assurance that they are financially viable and well governed.

Part A - Financial review

Operating environment

These Global Accounts cover the period up to 31 March 2016. The year saw major policy announcements followed by legislative changes in the form of the Welfare Reform and Work Act and the Housing and Planning Act. The most significant of these, as announced in July 2015, was the requirement to reduce social rents by 1% per annum for four years. The rent cut was implemented in April 2016 replacing the previous policy linking rent increases to CPI (Consumer Price Index) inflation plus 1%.

Although the rent cut did not come into effect until after the period covered by these accounts, many providers began the process of adapting business plans and implementing mitigating actions. The Global Accounts demonstrate that despite the changing operating context and a period of uncertainty, in aggregate, the sector continued to invest significantly in its asset base and is in a financially robust position.

The strength of the housing market has underpinned a robust performance in sales. Although there are significant regional variations, the average price for a new dwelling in England increased by 8.1%[2] in the year to March 2016.

Providers are debt funded and continued to benefit from low interest rates. The Bank of England base rate was 0.5% throughout the year to March 2016, as it had been since 2009. Three-month LIBOR was stable over the year, remaining in a range between 0.57% and 0.59%[3]. The sector has maintained a consistent proportion of fixed-rate debt with providers fixing interest rates (for more than one year) on approximately 70% of all borrowings.

Accounting changes and restatement of 2015 comparative figures

The sector has been working through the implications of FRS102 adoption for a number of years. However, the accounts published in 2016 were the first where all providers reported under the new standard and SORP 2014[4].

The new reporting standards have materially changed the presentation of financial statements. FRS102 also requires providers to make a considerable number of accounting choices. It is evident that providers have taken different approaches to making the transition. The key impacts of FRS102 adoption are set out in further detail in Part C note 19.

Although there were movements to a number of items within surplus, it is the introduction of fair value movements relating to certain debt instruments and housing properties that has introduced a degree of volatility. The change in the reported surplus in 2015 on restatement from £3.0bn to £2.6bn at entity level was primarily attributable to non-cash movements in the fair value of loans and interest rate swaps.

The most significant difference between the restated SOFP and the comparative balance sheet for 2015 is the treatment of grant. Whereas grant was previously 'netted off' the value of the housing properties to which it relates in fixed assets, it is now disclosed as a creditor. FRS102 also introduces changes to the valuation of housing properties and the measurement of debt in the financial statements. The net impact of the changes on transition was an increase in reserves of £7bn.

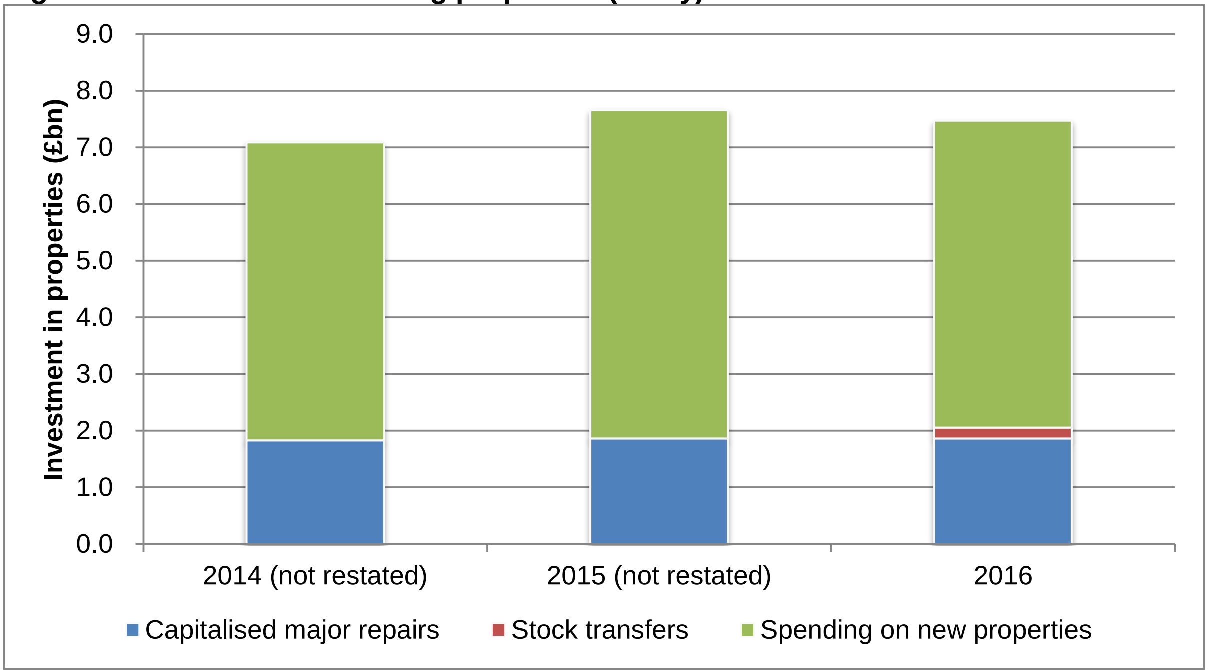
[2] House price index: March 2016, Office for National Statistics
[3] 3 month London Interbank Offered Rate (LIBOR), www.theice.com
[4] Two providers have elected to adopt full IFRS (International Financial Reporting Standard).

Growth in asset base

The sector delivered a solid year of asset growth, investing £7.5bn in new or existing housing properties based on entity returns (2015: £7.7bn, 2014: £7.1bn).

Capital investment in major repairs to existing properties was £1.9bn (2015: £1.9bn, 2014 £1.8bn). As Figure 1 demonstrates, the majority of spend on housing properties (£5.4bn in the year) was attributable to the development of new homes (2015: £5.8bn, 2014: £5.3bn).

Figure 1: Investment in housing properties (entity)



Based on entity returns, approximately 42,000 social housing units were completed in 2016, a 10% decrease on the 46,500 developed in 2015 (2014: 34,500). The decrease in supply in 2016 is partially attributable to transitions between affordable housing programmes (AHP). The year ending March 2015 was the final year of the 2011-15 AHP and there was a concentration of completions at the end of the programme.

In 2016, the asset base has been boosted by three stock transfers from local authorities. In combination, these stock transfers added 31,000 units to the sector. In aggregate, 18,000 units were sold or demolished (2015: 16,000 units). In total, the number of social homes in management increased by 51,000 to 2,691,000.

Properties held for market rent and other properties held for a non-social housing purpose are categorised as investment properties. They are re-measured annually at their fair value. In aggregate, based on entity returns, investment properties held by the sector increased from £2.6bn in 2015 to £2.8bn in 2016 (consolidated returns: £3.6bn in 2015 to £4.0bn in 2016).

Funding

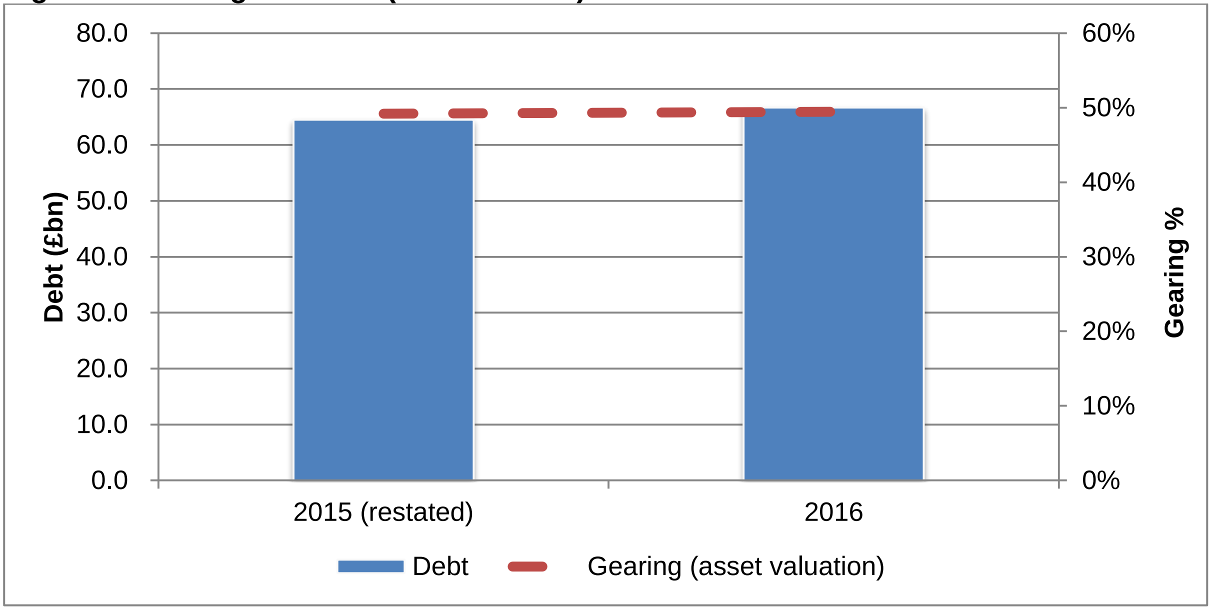
With grant rates remaining constrained, the investment in new and existing supply was primarily funded through the use of internally generated reserves and, to a lesser extent, further borrowing.

The increase in debt in the year is significantly lower than that reported in 2015. Based on consolidated returns, debt held by the sector increased by £2.2bn from £64.5 to £66.7bn. In 2015 the comparable increase in debt was £4.2bn. The level of increase in 2015 was partially attributable to the timing of investment programmes. Many providers drew debt in 2015 to fund the development peak towards the end of the 2011-15 AHP.

The majority of existing drawn debt is in the form of bank loans (68% of all debt drawn as at 31 March 2016[5]). However, funding from the capital markets continues to be the primary source of new debt. In total 21 bond issues (2015: 41 bond issues) or private placements took place in the year, raising a combined £1.6bn (2015: £4.4bn).

The increase in debt of 3.4% at consolidated level is reflected in a slight increase in gearing. Gearing, measured as debt as a proportion of the net book value of housing properties, increased by less than 1% to 49.5%.

Figure 2: Gearing and debt (consolidated)



Financial highlights

Table 2: Summary of income statement

£bn	Consolidated 2016	2015 (restated)	Entity 2016	2015 (restated)
Turnover	20.0	18.6	17.8	16.8
Total operating costs	(14.5)	(13.5)	(12.7)	(12.1)
Operating surplus	**5.5**	**5.1**	**5.0**	**4.7**
Net interest payable	(2.9)	(2.9)	(2.8)	(2.7)
Surplus on sale of fixed assets	0.7	0.6	0.8	0.6
Surplus for the year	**3.3**	**2.6**	**3.2**	**2.6**
Operating surplus on social housing lettings	**4.8**	**4.5**	**4.7**	**4.3**

[5] Quarterly survey of private registered providers for Q4 (January to March) 2015 to 2016, HCA

The results in the year represent solid growth of the sector. In 2016, at consolidated level, turnover grew by 7.6%, the operating surplus increased by 8.5% and the surplus for the year by 30.3%.

With total debt at 20 times the annual surplus, strong interest cover is required to service existing debt and support continued investment. Interest cover increased in the year for both entity and consolidated returns; the level of cover was well in excess of 150%. The strength of interest cover results suggest that, in aggregate, the sector has further borrowing capacity subject to risk, covenant and balance sheet constraints.

Table 3: Key financial ratios

	Consolidated		Entity	
Figures as %	**2016**	**2015 (restated)**	**2016**	**2015 (restated)**
Profitability ratios				
Net margin	16.7%	13.8%	18.2%	15.5%
Operating margin	27.6%	27.4%	28.4%	28.0%
EBITDA MRI[6] margin	28.4%	27.5%	29.7%	28.7%
Effective interest rate	4.9%	5.0%	5.0%	5.0%
Debt servicing ability				
EBITDA MRI interest cover	170%	153%	158%	148%
EBITDA MRI interest cover SHL	148%	134%	147%	136%
Gearing (asset valuation)	49.5%	49.2%	49.6%	49.4%
Debt per unit (£)	24,299	23,951	24,146	23,880
Debt to turnover	3.4	3.6	3.7	3.9

The principal difference between the entity and consolidated SOCI is the inclusion of non-social housing income and expenditure, delivered in non-registered entities, in consolidated financial returns. The contribution from these activities broadly correlates to Gift Aid receipts in the entity accounts, resulting in only a marginal difference in the reported surplus.

Operating margins based on both entity and consolidated returns increased by 1% in the year. The operating margin and EBITDA MRI margin are higher at entity level. This is attributable to the higher margins reported on social housing lettings relative to non-social housing activity.

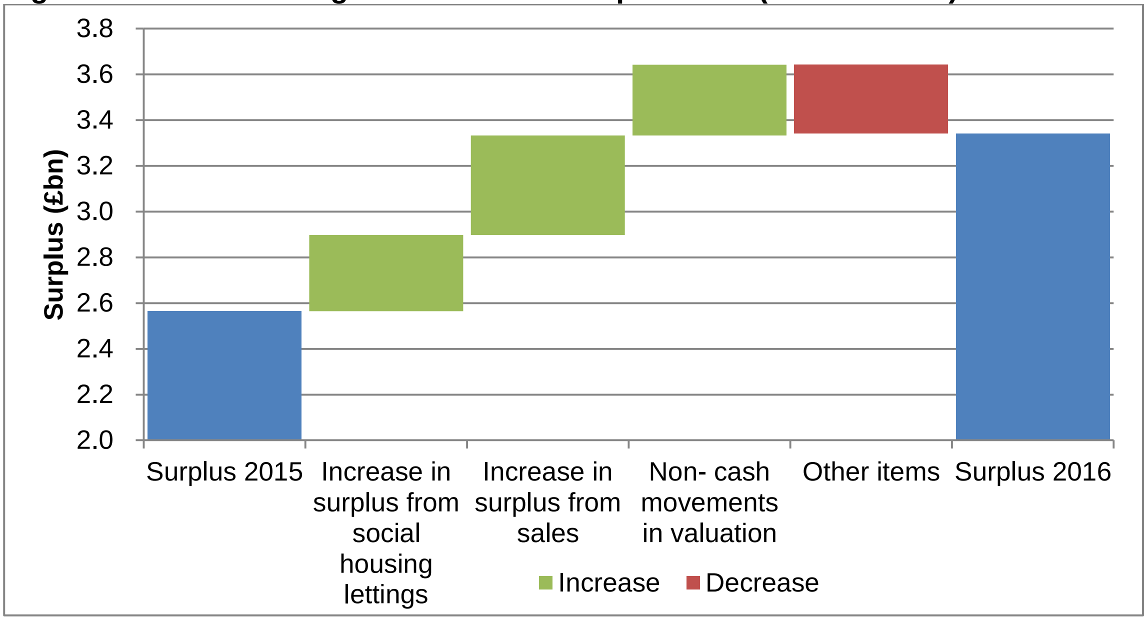
The aggregate consolidated returns include an additional £1.9bn of turnover from non-social housing activities undertaken in non-registered entities. The operating margin on social housing lettings activity was 32.1% in 2016, whereas the operating margin on properties developed for sale was 25.7% and the margin on all other non-social activity was 8.3%.

The operating margin on social housing lettings activity is high, relative to the other activities undertaken by the sector. However, social housing lettings is capital intensive and the majority of debt held by the sector has been raised to fund this activity. As operating margins do not include interest payable, a direct comparison of operating margins across different activities does not represent a valid comparison of relative profitability.

At the entity level, the surplus increased by £0.6bn from £2.6bn to £3.2bn. At the consolidated level, the surplus increased by £0.8bn from £2.6bn to £3.3bn. Figure 3 identifies the factors driving the increase in surplus in 2016. The figure and subsequent narrative is based on consolidated returns.

[6] Earnings before interest, taxation, depreciation and amortisation with all major repairs spending included.

Figure 3: Factors driving the increase in surplus 2016 (consolidated)



The **operating surplus from social housing lettings** increased by £332m (7.4%) to £4.8bn.

Of the £332m increase, more than two thirds (£231m) was attributable to an increase in revenues from social housing lettings[7]. Growth in rental income was partially attributable to the inflation-linked rent increase, with an average increase of 3.8% per unit.

The increase in rent per unit is higher than the guideline rent increase for the year of 2.2%[8]. The difference is primarily attributable to movements in stock and conversions. The 2011-15 AHP ended in March 2015. This resulted in a spike of completions in the spring of 2015. The majority of newly developed units were let at affordable rent, whereas most of the units sold or demolished by the sector were previously social rent units let at a lower rate. In addition, approximately 16,000 units were converted[9] from social rent to affordable rent in 2016, providing a further uplift above the inflation linked increase.

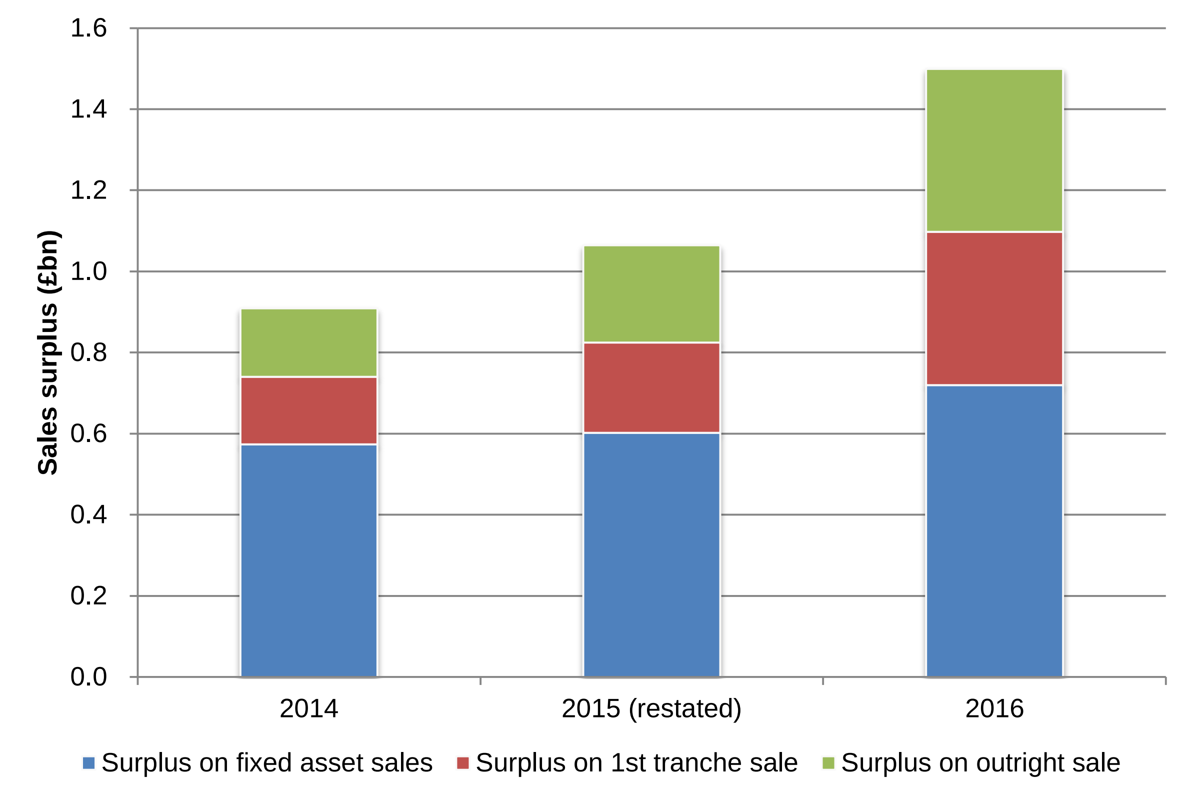
Turnover from social housing lettings increased by 5.2% and costs increased by 4.1%. In aggregate, the operating margin on social housing lettings increased from 31.4% in 2015 to 32.1% in 2016. The improvements in the margin on social housing lettings further increased the operating surplus by £101m.

An increase in the **surplus recognised on sales** contributed £435m to the overall increase in surplus. This included:

- £155m (70%) increase in the surplus from the sale of first tranche shared ownership properties.
- £162m (68%) increase in the surplus from the sale of properties developed for outright sale.
- £118m (20%) increase on the surplus recognised on the sale of fixed assets. Over three quarters of this increase was attributable to staircasing sales on shared ownership properties.

[7] The figure attributable to the increase in revenues is derived by applying the operating margin from 2015 to the increase in social housing revenues.
[8] CPI in September 2014 of 1.2% plus 1%.
[9] Statistical Data Return 2015 to 2016, HCA. Providers can convert units from other forms of social rent to Affordable rent as part of a contractual agreement with the HCA or Greater London Authority (GLA)

Figure 4: Total sales activity (consolidated)



The sector's exposure to sales risk has increased in recent years. In total, a surplus of £1.5bn on sales was reported in 2016, a 41% increase on the previous year. In 2016 margins on first tranche shared ownership sales increased from 26% to 31% and the margin on properties developed for sale increased from 21% to 26%. Increased exposure to the cyclical housing market is a key risk for the sector to manage.

In 2016, £310m of the overall increase in surplus is attributable to **non-cash re-measurements** (further detail on the reporting of fair value movements is set out in Part C Notes to accounts, notes 6 and 7). This included the following:

- Interest rate swaps and a minority of loans, classified as 'non-basic' or 'other' under FRS102 are subject to annual fair value measurement. Where hedge accounting[10] is not applied the movement in fair value must be recognised within the surplus. The fair value adjustment on financial instruments correlates with movement in swap rates:
  - In respect of non-hedged non-basic financial instruments, a sharp downward adjustment of £489m in 2015 was attributable to a fall in swap rates in the year. The 15 year swap rate fell from 2.98% in March 2014 to 1.72% in March 2015.
  - In the year to March 2016 the 15 year swap rate dropped less markedly (from 1.72% to 1.55%) resulting in an adverse movement of only £55m in fair value in the year.

- In 2016 a net loss of £120m was recognised within surplus in relation to revaluation of housing properties. This is a reversal of a marginal net gain of £5m recognised in 2015.

[10] The movement in fair value financial instruments is reported above or below the surplus in the SOCI depending on whether hedge accounting has been applied. Whether hedge accounting can be applied is dependent upon the nature of the economic relationship between the hedged item and the hedging instrument. Applying hedge accounting allows providers to report the movement in fair value in other comprehensive income reducing volatility in the recognised surplus.

Movements **relating to other items** had the net impact of reducing the surplus by £301m. This includes the following:

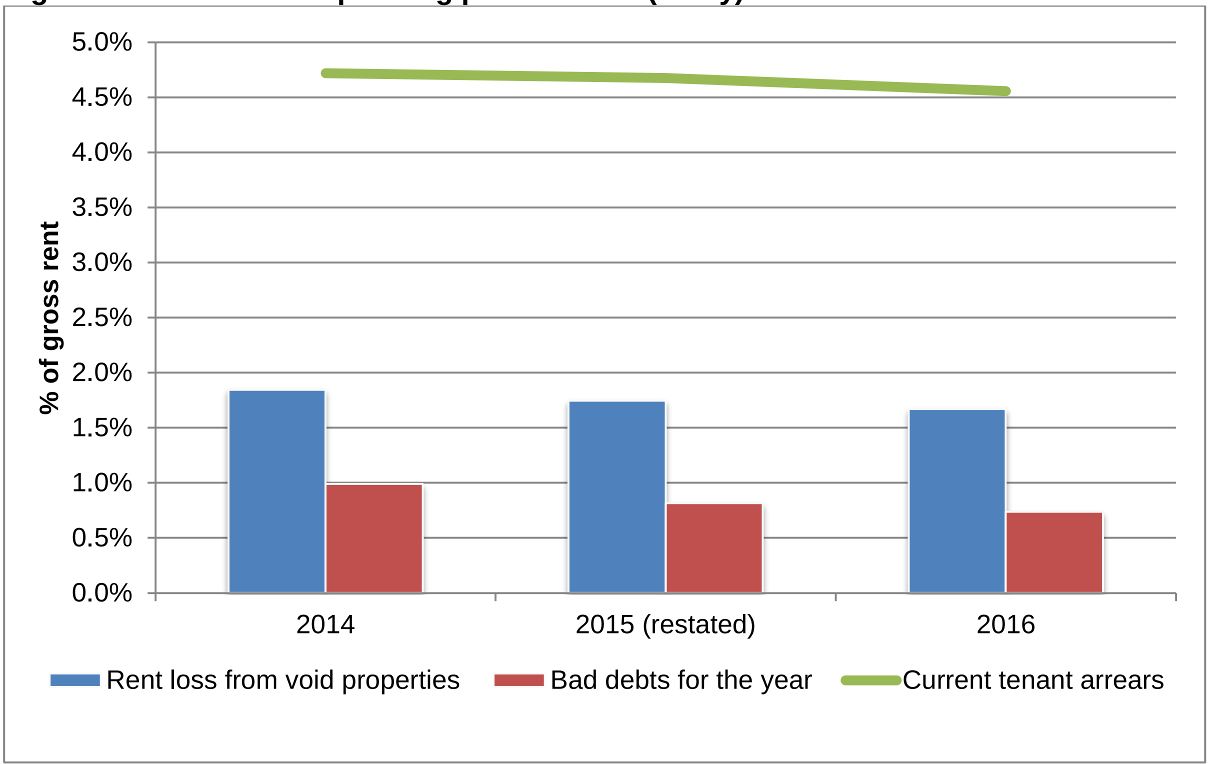
- The loss reported on other social housing activities increased by £106m from £64m in 2015 to £170m in 2016. This includes a £41m loss relating to charges for support services in 2016. The remaining £130m loss in 2016 includes a broad range of activities covering development management, community services and regeneration activity. The increased loss in the year is also partially attributable to changes in accounting for pension past service deficits.

- The surplus on other non-social housing activity (not including property developed for sale) decreased by £110m from £219m in 2015 to £110m in 2016. Other non-social housing includes activity relating to student housing, nursing homes, and market rented properties. Approximately 50% of the decrease in surplus in 2016 was attributable to a non-cash adjustment made following the acquisition of a subsidiary by one provider in 2015.

- The net impact of other items within surplus was to reduce the surplus by £84m[11]. This includes an increase in net interest costs of £33m (1.1%) attributable to the increase in debt and to a lesser extent a marginal decrease in the effective interest rate.

Operating performance

Figure 5: Indicators of operating performance (entity)



Bad debts, voids and current tenant arrears are key performance indicators in assessing the efficiency of lettings and rent collection. In 2016 bad debts decreased by 9.7% compared to 2015. Voids and current tenant arrears have remained relatively stable, decreasing marginally in comparison to 2015 levels.

[11] Other items include the share of surplus in joint ventures, corporation tax and other sundry items

Part B – Financial statements

Table 4: Statement of comprehensive income (SOCI)

£bn	*Note*	Consolidated 2016	Consolidated 2015 (restated)	Entity 2016	Entity 2015 (restated)
Turnover		20.0	18.6	17.8	16.8
Cost of sales		(1.9)	(1.6)	(1.0)	(0.9)
Operating expenditure		(12.5)	(11.9)	(11.7)	(11.2)
Operating surplus	*2*	**5.5**	**5.1**	**5.0**	**4.7**
Gain/(loss) on disposal of fixed assets	*3*	0.7	0.6	0.8	0.6
Gift aid and other items	*4*	0.2	0.3	0.4	0.5
Interest receivable	*5*	0.1	0.1	0.2	0.3
Interest payable and financing costs	*5*	(3.0)	(3.0)	(3.0)	(3.0)
Movement in fair value of financial instruments	*6*	(0.1)	(0.5)	(0.0)	(0.5)
Movement in valuation of housing properties	*7*	(0.1)	0.0	(0.1)	0.0
Surplus before tax		**3.4**	**2.6**	**3.3**	**2.6**
Taxation		(0.0)	(0.0)	(0.0)	0.0
Surplus for the period		**3.3**	**2.6**	**3.2**	**2.6**
Unrealised surplus /(deficit) on revaluation of housing properties	*7*	(0.4)	0.1	(0.4)	0.1
Actuarial (loss) / gain pension schemes	*8*	0.4	(0.6)	0.4	(0.6)
Change in fair value of hedged instruments	*6*	(0.0)	(0.9)	(0.0)	(0.8)
Comprehensive income for the period		**3.4**	**1.1**	**3.2**	**1.3**

Table 5: Income and expenditure from social housing lettings (SHL) (note 2a)

£bn	Consolidated 2016	Consolidated 2015 (restated)	Entity 2016	Entity 2015 (restated)
Income				
Rents	13.0	12.3	12.9	12.2
Service charge income	1.2	1.2	1.2	1.2
Net rental income	**14.3**	**13.5**	**14.1**	**13.3**
Capital grant released to income	0.4	0.4	0.4	0.4
Other and revenue grant	0.3	0.3	0.3	0.3
Turnover from SHL	**15.0**	**14.2**	**14.8**	**14.1**
Expenditure				
Management	2.8	2.7	2.9	2.7
Service charge costs	1.5	1.4	1.4	1.3
Routine maintenance	1.9	1.9	1.9	1.9
Planned maintenance	0.8	0.8	0.8	0.8
Major repairs expenditure	0.5	0.6	0.5	0.6
Bad debts	0.1	0.1	0.1	0.1
Depreciation of housing properties	2.0	1.9	2.0	1.9
Impairment of housing properties	0.1	0.0	0.1	0.0
Other costs	0.4	0.4	0.4	0.4
Expenditure on SHL	**10.2**	**9.8**	**10.1**	**9.7**
Operating surplus / (deficit) on SHL	**4.8**	**4.5**	**4.7**	**4.3**

Table 6: Statement of financial position (SOFP)

£bn	Note	Consolidated 2016	Consolidated 2015 (restated)	Entity 2016	Entity 2015 (restated)
Fixed assets					
Housing properties at cost	*9*	91.2	87.6	88.0	84.6
Housing properties at valuation	*9*	2.0	2.5	2.0	2.4
Housing properties at deemed cost	*9*	41.6	41.0	41.2	40.6
Other fixed assets	*10*	2.9	2.9	2.5	2.6
Investment properties	*10*	4.0	3.6	2.8	2.6
Other investments	*10*	1.6	1.4	3.4	2.3
Total fixed assets		**143.2**	**139.0**	**139.8**	**135.1**
Current assets					
Properties held for sale	*11*	3.5	3.1	1.4	1.3
Trade and other debtors	*11*	1.8	1.8	2.2	2.6
Cash and cash equivalents	*11*	5.5	4.9	4.5	3.9
Short term investments	*11*	1.3	1.4	1.1	1.2
Other current assets	*11*	2.1	2.0	4.6	4.2
Total current assets		**14.3**	**13.2**	**13.7**	**13.3**
Creditors: amounts falling due within one year					
Short term loans	*13*	1.9	0.9	1.7	0.9
Deferred capital grant	*14*	0.3	0.3	0.3	0.3
Other current liabilities	*12*	4.6	4.7	5.0	4.8
Total creditors: due within one year		**6.8**	**5.9**	**7.0**	**6.1**
Net current assets/ liabilities		**7.5**	**7.3**	**6.7**	**7.3**
Total assets less current liabilities		**150.7**	**146.3**	**146.5**	**142.4**
Creditors: amounts falling due after more than one year					
Long term loans	*13*	64.4	63.3	53.4	52.9
Amounts owed to group undertakings	*13*	0.0	0.0	9.7	9.0
Finance lease obligations	*13*	0.4	0.3	0.2	0.2
Deferred capital grant	*14*	35.1	35.3	34.2	34.4
Other long term creditors	*15*	5.3	5.2	5.1	5.0
Total creditors: due more than one year		**105.3**	**104.0**	**102.6**	**101.5**
Provisions for liabilities					
Pension provision	*8*	1.9	2.2	1.7	2.0
Other provisions	*16*	1.7	1.6	1.6	1.5
Total net assets		**41.8**	**38.5**	**40.7**	**37.5**
Reserves					
Income and expenditure reserve	*17*	29.8	25.8	28.2	24.4
Revaluation reserves	*17*	12.6	13.1	12.8	13.3
Restricted reserves	*17*	0.6	0.6	0.6	0.6
Other reserves	*17*	(1.1)	(1.1)	(0.9)	(0.9)
Total reserves		**41.8**	**38.5**	**40.7**	**37.5**

Part C - Notes to accounts

1. Global Accounts methodology

This analysis is based on a database of information derived from housing providers' audited financial statements. The database contains data from the annual account regulatory returns (known as FVAs) which must be submitted by providers that manage 1,000 or more homes. Where a provider is a parent of a group structure that produces consolidated financial statements it must submit an entity FVA and a consolidated FVA.

These regulatory returns are aggregated to produce the SOFP, SOCI and income and expenditure on social housing lettings. Statements and notes are based on the entity dataset and consolidated dataset for 2015/16. Comparative figures for 2014/15 are also provided, based on the restated figures for that period as submitted following adoption of FRS102 in 2016.

In the statements and tables included in the notes, the figures are rounded to the nearest £ billion to one decimal place. Please note that this results in rounding differences in totals.

Aggregate SOCI
The aggregate SOCI reflects the sum of private registered provider activity for all accounting periods ending between 1 April 2015 and 31 March 2016.

Aggregate SOFP
The aggregate SOFP is the sum of individual statements where the financial year end falls within the period from 1 April 2015 to 31 March 2016.

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

2: Particulars of turnover, cost of sales, operating expenditure and operating surplus

2(a): Social housing lettings

Based on entity returns, turnover from SHL increased by 5.3% to £14.8bn in 2016. The total in the consolidated group accounts is slightly higher at £15.0bn, an increase of 5.2% on 2015. Contributory factors to this difference will include turnover from small (less than 1,000 unit) providers that form part of group structures and turnover from SHL outside of England.

Total rental income increased by £0.7bn or 5.8%, which is the combined impact of the net increase in units during the year and the inflation-linked rent increase that was applicable in this year[12]. The guideline rent increase for this year was 2.2%[13]. However, average weekly rent per social housing unit increased by 3.8% to £92 (2015: £89). The difference is attributable to the following:

[12] 2015/16 was the first year of a 10 year rent settlement under which social rents would increase by CPI + 1%. The July 2015 budget subsequently announced that rents would be reduced by 1% per year for four years from 2016/17.
[13] CPI in September 2014 of 1.2% plus 1%.

- In 2016 42,000 new units were developed and 18,000 units sold or demolished. The new units developed were primarily let at affordable rent, whereas most of the units sold or demolished were previously let at social rent.

- In 2016, approximately 16,000 units were converted from social rent to affordable rent.

- Timing differences attributable to the spike in completions linked to the 2011-15 AHP in late 2014/15 and early 2015/16. The impact on the sector average rent per unit figure, for units completed in this period, is realised in 2016.

The combined average weekly rent and service charge per unit increased to £101 (2015: £97, 3.7% increase). The ratio of service charges to service costs was 85.4% which was marginally lower than the figure for 2015 (85.8%).

At entity level, total expenditure on SHL increased by 4.2% to £10.1bn. The operating surplus increased by £334m and the margin on SHL improved from 30.8% to 31.6%. Expenditure attributed to management costs increased by 8.7%, rising from 18.9% to 19.6% of turnover. Expenditure on planned maintenance, major repairs and bad debts all decreased in cash terms. The results on a consolidated basis are not materially different.

2(b) Other social housing activities

Table 7: Other social housing activities

£bn	Consolidated 2016	Consolidated 2015 (restated)	Entity 2016	Entity 2015 (restated)
First tranche shared ownership sales				
Turnover	1.2	0.9	1.2	0.8
Expenditure / Cost of sales	0.8	0.6	0.8	0.6
Surplus	**0.4**	**0.2**	**0.4**	**0.2**
Other social housing activities				
Turnover	0.9	0.9	0.8	0.9
Expenditure / Cost of sales	1.1	1.0	1.0	0.9
Deficit	**(0.2)**	**(0.1)**	**(0.2)**	**(0.1)**
Total				
Turnover	2.1	1.8	2.0	1.7
Expenditure / Cost of sales	1.9	1.7	1.8	1.6
Surplus	**0.2**	**0.2**	**0.2**	**0.2**

There is very little difference between the consolidated group and entity returns in relation to the sale of first tranche shared ownership units. Turnover based on consolidated returns has increased by £334m to £1.2bn with an increase in the surplus on sales from £223m to £378m. This represents a margin increase from 25.7% to 31.4%. Shared ownership sales are concentrated in a small number of providers with more than 50% of the surplus attributable to 12 providers.

Other social housing activity includes income and expenditure relating to support services. The sector reported a loss on social housing support activity of £43m in entity returns and £41m in group returns (2015: £48m entity, £42m consolidated).

The sector reported a loss of £112m in entity returns and £129m in consolidated returns against the remainder of other social housing activities. Activities categorised as other social housing activity include management services, development and marketing costs and community and regeneration activity. Under new accounting standards a number of providers reported changes to Social Housing Pension Scheme (SHPS) past service deficit contribution schedules in other social housing expenditure.

2(c) Non-social housing activities

Table 8: Non-social housing activities

	Consolidated		**Entity**	
£bn	**2016**	**2015 (restated)**	**2016**	**2015 (restated)**
Properties developed for sale				
Turnover	1.6	1.1	0.2	0.2
Expenditure / Cost of sales	1.2	0.9	0.1	0.2
Surplus	**0.4**	**0.2**	**0.0**	**0.0**
Other non-social housing activities				
Turnover	1.3	1.4	0.8	0.8
Expenditure / Cost of sales	1.2	1.2	0.7	0.6
Surplus	**0.1**	**0.2**	**0.1**	**0.2**
Total				
Turnover	2.9	2.5	1.0	1.0
Expenditure / Cost of sales	2.4	2.1	0.8	0.8
Surplus	**0.5**	**0.5**	**0.2**	**0.2**

Turnover from outright sale is much higher in the consolidated returns, as this activity is typically undertaken in non-registered entities. The surplus on outright sale increased by £162m (68%) to £402m in 2016. The margin increased from 21.4% to 25.7%. The development of properties for market sale is concentrated in a small number of providers, with over 75% of the surplus attributable to ten providers.

In total the surplus from other non-social housing activity was £110m (2015: £219m). This included a surplus of £97m on market rent properties (2015: £94m), a surplus of £42m on student accommodation (2015: £30m) and a loss on the remainder of other non-social activity of £30m (2015: surplus of £95m).

Of the total £110m decrease in surplus on non-social housing activity between 2015 and 2016, approximately 50% was attributable to the acquisition of a subsidiary by one provider. In the year of transaction (2015 in this case), the fair value of transferred assets was recognised in non-social housing income. The decrease in 2016 was also attributable to a small number of providers reporting impairment charges on non-social housing properties in the year.

3. Disposal of fixed assets

Table 9: Disposal of fixed assets

£bn	Consolidated 2016	Consolidated 2015 (restated)	Entity 2016	Entity 2015 (restated)
Staircasing				
Proceeds	0.8	0.6	0.8	0.6
Costs of sale	0.5	0.4	0.5	0.4
Surplus	**0.3**	**0.2**	**0.3**	**0.2**
Right to Buy / Right to Acquire				
Proceeds	0.3	0.3	0.3	0.3
Costs of sale	0.2	0.2	0.2	0.2
Surplus	**0.1**	**0.1**	**0.1**	**0.1**
Other social housing sales				
Proceeds	0.7	0.6	0.8	0.6
Costs of sale	0.4	0.3	0.5	0.3
Surplus	**0.3**	**0.2**	**0.3**	**0.2**
Sales to other RPs and sale of other assets				
Proceeds	0.4	0.4	0.7	0.4
Costs of sale	0.3	0.3	0.5	0.3
Surplus	**0.1**	**0.1**	**0.2**	**0.1**
Total				
Proceeds	2.2	1.8	2.5	1.9
Costs of sale	1.5	1.2	1.7	1.3
Surplus	**0.7**	**0.6**	**0.8**	**0.6**

At entity level the total surplus on the sale of fixed assets increased by 30% to £0.8bn. Of the total surplus, £285m (36%) consisted of the staircasing of shared ownership properties, an increase from £197m in 2015. Nine providers reported staircasing proceeds in excess of £10m and together accounted for 45% of the sector total.

The consolidated totals for other social housing sales, sales to other registered providers and sale of other assets are lower than the entity totals. This is attributable to a proportion of these asset sales taking place within group structures. Where this is the case the sales are eliminated on consolidation of group accounts. In total, this resulted in the surplus on fixed asset sales being £63m lower in consolidated group accounts than at individual entity level.

4. Gift Aid and other items

In 2016 Gift Aid receipts in entity returns totalled £308m, an increase of £97m (46%) on 2015. This reflects the non-social housing activity carried out by the non-registered entities within group structures. There is a strong correlation between Gift Aid received in the entity returns and surplus on properties developed for sale in non-registered entities within the consolidated returns.

Based on entity returns, other items decreased from £255m in 2015 to £82m in 2016. This predominantly relates to the movement in fair value of investment properties in other items.

5. Interest and finance costs

The sector has continued to benefit from historically low interest rates with the Bank of England (BoE) base rate static at 0.5% since 2009 and throughout the period covered by these accounts. Between April 2015 and March 2015 LIBOR has remained stable, moving only marginally from 0.57% at 1 April 2015 to 0.59% at 31 March 2016[14]. Interest rates have fallen after the balance sheet date with the BoE base rate moving to 0.25% in August 2016.

With reference to consolidated returns the sector reported interest and financing costs (including capitalised interest) of £3.3bn, an increase of £25m (0.8%) on the previous year. This reflects an increased total debt balance of £66.7bn which was up £2.2bn (3.4%) from the previous year.

The effective interest rate[15] based on consolidated returns was 4.9% (entity: 5.0%) which is broadly consistent with previous years. Fixed-rate debt, repayable in more than one year, comprises 69% (2015: 69%) of the sector's borrowings[16].

At entity level, interest receivable amounted to £235m, a 6.1% decrease on 2015. The lower consolidated total of £107m reflects a degree of lending between entities within group structures.

6. Movement in the fair value of financial instruments

Interest rate swaps and a minority of loans are classified as 'non-basic' or 'other' financial instruments under FRS102 and as such are subject to annual fair value measurement.

The movement in fair value of interest swaps held by providers is reported above or below the surplus in the SOCI depending on whether hedge accounting has been applied. Whether hedge accounting can be applied is determined by the economic relationship between the hedged item and the hedging instrument. Applying hedge accounting allows providers to report the movement in fair value after surplus in other comprehensive income reducing volatility in the recognised surplus.

The fair value adjustment on 'non-basic' loans and interest rate swaps correlates with movement in swap rates. The sharp downward adjustments of £0.5bn in respect of non-hedged financial instruments and £0.9bn (£0.8bn in entity returns) for hedged instruments in 2015 are linked to a fall in swap rates. For example the 15 year swap rate fell from 2.98% in March 2014 to 1.72% in March 2015. In the year to March 2016 swap rate dropped less markedly (to 1.55%) which is reflected in a less significant downward adjustment on fair value in 2016.

7. Movement in the value of housing properties

Where there is a revaluation movement relating to housing properties and no indication of impairment the decrease or increase in valuation is recognised in the SOCI. Depending on the asset type and the level of accumulated revaluation gains in equity relating to that asset, the movement can be shown above or below the surplus. In 2016, based on consolidated returns, a net loss on revaluation of £120m was recognised above the surplus (2015: net gain of £5m) and a net unrealised deficit of £388m recognised in other comprehensive income below the surplus (2015: unrealised surplus of £74m).

[14] 3 month London Interbank Offered Rate (LIBOR), www.theice.com
[15] Interest payable and capitalised interest as a percentage of total borrowing.
[16] Quarterly survey of private registered providers for Q4 (January to March) 2015 to 2016, HCA

8. Pensions

The actuarial gain or loss on pension assumptions has changed year on year. In 2015, based on entity returns, the sector reported an actuarial loss of £0.6bn. In 2016 the sector reported an actuarial gain of £0.4bn.

The change results from movements in the underlying actuarial assumptions, including projected changes in inflation, the rate of increase in the level of pensions paid, of salaries and a discount rate linked to gilts, plus mortality assumptions in relation to how long a pension is expected to be paid. Many of these assumptions tend to remain fairly static but for a number of providers the discount rate has increased marginally.

The aggregate, at entity level, pension provision for liabilities decreased by £0.3bn to £1.7bn (2015: £2.0bn). This movement is commensurate with the actuarial gain recognised in the year.

9. Fixed asset – housing properties

Table 10: Fixed asset note – housing properties (2016)

£bn	**Consolidated**	**Entity**
Housing properties at cost or valuation		
Properties held at cost	101.8	98.5
Properties held at valuation	2.5	2.5
Properties held at deemed cost	40.9	40.5
Total properties held at start of period	**145.2**	**141.5**
Additions		
Additions	7.7	7.5
Disposals	(1.6)	(1.8)
Revaluation and other	(0.7)	(0.6)
Total properties held at end of period	**150.6**	**146.6**
Depreciation and impairment		
Total depreciation and impairment at start of period	***14.1***	***13.8***
Depreciation and Impairment charged in period	2.1	2.0
Released on disposal	(0.3)	(0.3)
Revaluation and other	(0.1)	(0.1)
Total depreciation and impairment at end of period	***15.8***	***15.4***
Net book value at end of period	**134.8**	**131.1**
Net book value at start of period	**131.1**	**127.6**

In respect of registered entities, there was a total of £7.5bn of investment in properties during the year.

Including a downward movement in revaluation of £0.6bn and disposals of properties with a book value of £1.8bn, the gross book value (GBV) of housing properties grew by £5.1bn to £146.6bn. Following an annual depreciation and impairment charge of £1.6bn the net book value (NBV) of housing properties grew by £3.5bn (2.7%) to £131.1bn.

The GBV of social housing properties owned by consolidated groups at the start of the year was £145.2bn. There was a total of £7.7bn of investment in additional properties during the year, which after disposals and revaluations, resulted in a closing GBV of £150.6bn, an increase of 3.7%. The NBV (after depreciation and impairment) increased by 2.7% during the year to £134.8bn.

The group totals include assets owned by small (less than 1,000 units) providers and assets held outside England, and so are slightly higher than the entity totals. The group figures exclude intragroup disposals.

10. Other fixed assets and investments

Table 11: Other fixed assets

£bn	Consolidated 2016	Consolidated 2015 (restated)	Entity 2016	Entity 2015 (restated)
Tangible fixed assets: Other	1.8	1.8	1.6	1.6
HomeBuy loans receivable	0.9	1.0	0.9	1.0
Intangible fixed assets and goodwill	0.1	0.1	0.1	0.1
Total	**2.9**	**2.9**	**2.5**	**2.6**

Other fixed assets were valued at £2.9bn (Entity: £2.5bn) and are made up primarily of tangible fixed assets other than housing properties (64%), which will include items such as office buildings and IT equipment.

Table 12: Investments

£bn	Consolidated 2016	Consolidated 2015 (restated)	Entity 2016	Entity 2015 (restated)
Investment properties	4.0	3.6	2.8	2.6
Investment in joint ventures	0.5	0.4	0.0	0.0
Investment in associates	0.1	0.0	0.2	0.2
Other investments	1.0	1.0	3.2	2.1
Total	**5.5**	**5.0**	**6.2**	**4.9**

Market rent properties are classified as ‘investment properties’ and held at fair value in the SOFP. The total value of investment properties held by registered entities increased by 7.0% to £2.8bn. The consolidated accounts show that additional investment properties are held in non-registered entities, with the total valued at £4bn, an increase of 10.6% on the previous year. Ten groups own investment properties valued at more than £100m and together account for 65% of the consolidated group total.

Investment in joint ventures, in consolidated accounts, increased 37.6% to £0.5bn. There are 31 groups which hold this type of investment and the sector total is dominated by one provider which accounted for 57% of the total and 77% of the increase in the year.

Other investments increased by 53.5% to £3.2bn in the entity accounts. The corresponding figure in the consolidated group accounts is markedly lower, indicating that a substantial proportion of this is investment in other organisations within the same group structure. There were five entities which reported more than £100m of other investments, together these accounted for 63% of the sector total.

11. Current assets

Total current assets held by consolidated groups increased by 8.2% to £14.3bn (Entity: 2.7%, £13.7bn).

The total value of properties held for sale is greater at consolidated level (£3.5bn compared to £1.4bn), reflecting market sale developments undertaken by unregistered entities. There were nine groups which had more than £100m of properties held for sale together, accounting for 52% of the sector total.

At entity level, cash and short-term investments increased by £0.4bn to £5.5bn. At a consolidated level the increase was £0.5bn to £6.8bn. The increase is partly attributable to the increasing use of capital markets to raise finance. Bonds and private placements typically involve a single large drawdown on issue. Other contributory factors include timing differences between loan drawdowns and spend on new development, stock improvement programmes and increased cash flow from sales activity.

Table 13: Other current assets

	Consolidated		**Entity**	
£bn	**2016**	**2015 (restated)**	**2016**	**2015 (restated)**
Amounts owed by group undertakings	0.0	0.0	2.7	2.5
Refurbishment obligations[17]	1.1	0.9	1.1	0.9
Other	1.0	1.0	0.7	0.9
Total	**2.1**	**2.0**	**4.6**	**4.2**

12. Other current liabilities

Table 14: Other current liabilities

	Consolidated		**Entity**	
£bn	**2016**	**2015 (restated)**	**2016**	**2015 (restated)**
Trade creditors	0.6	0.7	0.4	0.5
Rent and serviced charge received in advance	0.3	0.3	0.3	0.3
Amounts owed to group undertakings	0.0	0.0	1.3	1.0
RCGF and DPF[18]	0.2	0.2	0.2	0.2
Accruals and deferred income	2.2	2.1	1.7	1.6
Other	1.3	1.4	1.1	1.2
Total	**4.6**	**4.7**	**5.0**	**4.8**

Amounts owed to group undertakings make up a quarter of total current liabilities at entity level, amounting to £1.3bn and showing a 28% increase on the prior year. This is the main reason for the entity total being greater than that of the consolidated groups.

Accruals and deferred income is the largest item for both entities and consolidated groups at £1.7bn and £2.2bn respectively. In both cases the total was a small increase on the prior year.

[17] See note 16 for explanation of refurbishment obligation
[18] Recycled Capital Grant Fund (RCGF) and Disposal Proceeds Fund (DPF)

13. Debt

Total debt held by the sector at consolidated level increased by £2.2bn (3.4%) to £66.7bn. The increase at entity level was £1.9bn (3.1%) to £65.0bn.

Table 15: Debt

£bn	Consolidated 2016	Consolidated 2015 (restated)	Entity 2016	Entity 2015 (restated)
Short term loans and overdrafts	1.9	0.9	1.7	0.9
Long term loans	64.4	63.3	53.4	52.9
Amounts owed to group undertakings	0.0	0.0	9.7	9.0
Finance lease obligations	0.4	0.3	0.2	0.2
Total	**66.7**	**64.5**	**65.0**	**63.1**

The entity returns include £9.7bn of debt owed to group undertakings. A number of large groups arrange finance using treasury vehicles that borrow funds on behalf of the group to on-lend to group members. This accounts for the large majority of the balance.

The Quarterly Survey identified that in the financial year ending 31 March 2016 the total balance of drawn debt by the sector was £65.8bn[19]. Debt reported in the SOFP is measured at amortised cost using the effective interest method where classified as 'basic' and at their fair value when classified as 'other'.

14. Other long-term creditors

Table 16: Other long -term creditors

£bn	Consolidated 2016	Consolidated 2015 (restated)	Entity 2016	Entity 2015 (restated)
HomeBuy grant	0.6	0.6	0.7	0.7
RCGF	0.8	0.7	0.8	0.7
DPF	0.1	0.1	0.1	0.1
Other	3.9	3.8	3.6	3.5
Total	**5.3**	**5.2**	**5.1**	**5.0**

Other long term creditor balances of £3.9bn at entity level and £3.6bn at consolidated level are attributable to a range of disclosures in providers' financial statements. The majority of the balance is attributable to the fair value of derivative financial instruments.

A number of providers utilised standalone interest rate swaps where variable rate debt is fixed independently of the underlying debt. In the majority of these cases, following reductions in swap rates, the value of the cashflows due to the counterparty are greater than those owed to the provider, resulting in the fair value element being disclosed as a creditor.

[19] Quarterly survey of private registered providers for Q4 (January to March) 2015 to 2016, HCA

15. Capital grant

The majority of housing properties are held at cost with deferred capital grant being held as a creditor in the SOFP and released to income over the useful life of the asset (the accrual model). In 2016, at entity level, government grant of £411m was amortised and recognised in income under the accrual model.

A further £22m was released to income under performance model, where providers hold properties at valuation and recognise grant in income on scheme completion.

The decrease in grant reported in the SOFP is the net of amortised grant release to income and new grant received in the year. At entity level, the total capital grant reported in the SOFP has decreased by £0.2bn from £34.7bn in 2015 to £34.5bn 2016.

16. Provisions

The provision reported in respect of pension liabilities is covered in note 8 Pensions. Based on the entity returns, other provisions disclosed by the sector increased to £1.6bn in 2016 (2015: £1.5bn). Of this balance, £1.1bn relates to obligations to undertake refurbishment work where a stock transfer provider has entered into an agreement with a local authority. Providers must recognise both a payment in advance (creditor) and a prepayment (debtor). The latter is reported within current assets, see note 11, and table 13.

17. Reserves

The total reserves within the consolidated group accounts increased by 8.7% during the year to £41.8bn (Entity: 8.5%, £40.7bn). The majority of this is accounted for by the income and expenditure reserve which increased by 15.4% to £29.8bn (Entity 15.7%, £28.2bn) with the Restricted, Revaluation and Other reserves all showing a decrease.

Other reserves included cash flow hedge reserves. In the majority of cases, where providers have applied hedge accounting in respect interest rate swaps, a negative hedge reserve is recognised.

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

18. Units

Table 17: Social Homes in Management

No units 000s	**Entity**
Opening units	**2,640**
Units developed	42
Units sold / demolished	(18)
Transfers and other	27
Closing units	**2,691**

The sector completed 42,000 units in 2016 and sold or demolished 18,000 units. There were three stock transfers in the year, adding 31,000 units to the sector. Other movements reduced the number of homes in management by 4,000 units.

19. FRS102 restatement

Following a change in accounting standards the majority of providers have adopted FRS102[20] and adhered to the recommended practice issued in the SORP 2014. In doing so, in accounts published in 2016, providers were required to restate 2015 figures (originally published under UK GAAP (Generally Accepted Accounting Practice) and the Housing SORP 2010) and provide a reconciliation as a note to the financial statements. The effective 'transition date' is the start of the accounting period for the year ending 2015 (for the vast majority of providers the transition date is 1 April 2014).

Relative to previous reporting standards, FRS102 requires providers to make a considerable number of accounting choices. This makes it impracticable, at a sector aggregate level, to reconcile every movement to a single underlying factor. However, it is possible to broadly identify the key decisions and changes impacting on restated figures.

The reconciliations presented below take into account movements in the Global Accounts dataset. There are a small number of providers added or removed from the dataset each year. This is due to changes in the number of homes in management above or below the 1,000 home threshold requirement for submitting the FVA return. Where this is a material factor the figures are included in tables and the accompanying narrative.

Surplus reconciliation

Table 18: Surplus reconciliation (entity)

£bn	**2015**
Surplus under UK GAAP	**3.0**
Grant recognised in turnover	0.4
Additional depreciation charge	(0.4)
Movement in fair value of non-hedged financial instruments	(0.5)
Restated surplus under FRS102	**2.6**
Unrealised surplus /(deficit) on re-valued assets	0.1
Actuarial (loss) / gain on pensions	(0.6)
Movement in fair value of hedged financial instruments	(0.8)
Total comprehensive income for the period under FRS102	**1.3**

On restatement, the surplus recognised in 2015 of £3.0bn has been revised down to £2.6bn. This is attributable to the factors outlined below and overleaf.

Grant recognised in turnover

Previously grant was shown 'netted off' against fixed assets. Now grant is shown separately from the housing properties to which it relates and shown in the SOFP as a creditor. Where properties are held at cost, the accrual model is adopted. Under this method, grant is amortised over the useful life of the asset.

Where properties are held at valuation, the performance model is adopted, which results in grant being released to income on scheme completion (when conditions for the receipt of grant are met). The majority of providers have elected to value properties at cost; more than 90% of the £0.4bn grant recorded in turnover is amortised using the accrual model.

[20] Two providers have elected to adopt full IFRS (International Financial Reporting Standard).

Additional depreciation of re-valued assets

The separation of grant from housing properties has the effect of increasing the book value of fixed assets and therefore the annual depreciation charge. This results in the increase in turnover attributable to grant amortisation being largely offset by an accompanying increase in the annual depreciation charge of £0.4bn.

Movement in fair value of non-hedged financial instruments

FRS102 requires 'other' (also referred to as 'non-basic') financial instruments to be held at their fair value and subject to annual re-measurement. A significant fall in swap rate resulted in a £0.5bn charge in 2015.

Balance sheet / SOFP reconciliation

Table 19: Transition to FRS102 Statement of Financial Position

£bn	2015 UK GAAP	Dataset adjustment	FRS102	2015 FRS102
Fixed assets				
Housing properties less depreciation	128.5	0.6	(1.4)	127.6
Investment properties	0.0	0.0	2.6	2.6
Grant	45.7	(0.0)	(45.7)	0.0
Other fixed assets	5.4	0.0	(0.5)	4.9
Total fixed assets	**88.1**	**0.6**	**46.4**	**135.1**
Current assets	**12.6**	**0.1**	**0.6**	**13.3**
Creditors and provisions				
Grant	0.0	0.2	35.2	35.4
Debt	61.7	0.4	1.0	63.1
Other creditors and provisions	7.3	0.0	3.1	10.5
Pension liability / provision	1.3	0.0	0.6	2.0
Total creditors and provisions	**70.4**	**0.6**	**40.0**	**111.0**
Total net assets	**30.4**	**0.0**	**7.0**	**37.5**
Reserves	**30.4**	**0.0**	**7.0**	**37.5**

Value of housing properties less depreciation

In aggregate, excluding dataset adjustments, the value of housing properties reported decreased by £1.4bn on transition. However, the aggregate masks significant uplifts and downward adjustments within individual providers.

This is partially attributable to the use of 'deemed cost' as is permissible under FRS102. Under deemed cost, providers revalue properties as at the transition date and then subsequently apply the treatment associated with properties reported at historical cost. Over 20% of providers chose to use the deemed cost option for a proportion of their housing properties. By value, over £40bn of properties were valued on this basis.

Where providers previously held properties at historic cost, the deemed cost revaluation at transition date generally meant an uplift in the reported value of properties. The reverse is true where providers previously held properties at valuation. This is attributable to adjustments made in reverting to the valuation at transition date, excluding social housing grant. The majority of providers previously holding properties at valuation switched to deemed cost.

The majority of properties held by the sector remain valued at historic cost. Where this is the case the transition to FRS102 generally resulted in a downward adjustment in the reported value of properties. This is largely attributable to increases in cumulative depreciation following the separation of grant from fixed assets.

Investment properties

The decrease in the value of housing properties is also partially attributable to the reclassification under FRS102 of certain assets from housing properties to investment properties. In aggregate, based on entity returns, the sector reported £2.6bn in assets, primarily market rented units, as investment properties.

Grant

Grant being no longer 'netted off' the value of housing properties has the effect of increasing fixed assets by £45.7bn. Following the transition to FRS102 grant of £35.4bn is shown in the SOFP as a creditor. The difference of £10.3bn in reported grant in financial statements is attributable to the following:

- A number of large providers, previously holding properties at historic cost have switched to deemed cost. At the date of transition, grant held in relation to these properties is recognised in income and as such is included within the brought forward reserves.

- For the majority of providers carrying housing properties at historic cost, grant is held as a creditor and is amortised over the useful life of the asset. Therefore on transition, an adjustment is made to deduct all historic cumulative amortised grant from the reported figure in creditors.

Current assets

FRS102 changes the reporting requirements where a stock transfer provider has entered into a contract to undertake refurbishment works with a local authority. Under previous reporting standards it was permissible for providers to recognise the net effect of these agreements in financial statements. Providers must now recognise both a prepayment (debtor) and a payment in advance (creditor). This is the primary reason for the £0.6bn increase in current assets on restatement. The corresponding increase in liabilities contributes to the £3.1bn increase on other long term creditors and provisions.

Fair value of financial instruments

The fair value adjustment on 'non-basic' loans partially explains the £1.0bn increase in debt on restatement. The vast majority of debt held by the sector is classified as 'basic', measured at amortised cost and is not subject to annual re-measurement. The increase on restatement is partly attributable to fair value adjustments made on transition and in the year to Lender Option Borrower Option and a small number of other loans classified by providers as 'non-basic'.

A number of providers have interest rate swaps and other financial derivatives. Regardless of whether hedge accounting has been applied, the fair value of interest rate swaps must be disclosed as a liability or an asset in the SOFP. The majority of interest swaps, where providers have hedged variable rate debt independently of the underlying debt, have a fair value element disclosed as a creditor.

A small number of providers have reported the fair value of derivatives within debt, thereby contributing to the £1.0bn increase in debt on restatement. The majority of providers have reported the fair value of derivatives separately in other long-term creditors. This accounts for the majority of the £3.1m increase in other long-term creditors and provisions on transition.

Pensions

The restated 2015 pension provision for liabilities in the 2016 SOCI returns differs by £0.6bn from the original 2015 financial statements. This is caused by two different factors:

- There have been changes in accounting standards, whereby under FRS 102, the deficits in single provider pension schemes have been shared between group entities rather than being reported previously under one entity (often a group parent)

- SHPS deficits were not previously disclosed balance sheets and, in some cases, the estimated liability has been shown within this section.

Reserves

The net effect of transition to FRS102 was to increase reserves by £7.0bn to £37.5bn. In aggregate the income and expenditure reserve increased by £5.4bn to £24.4bn and the revaluation reserve increased by £2.6bn to £13.3bn. Other reserves fell by £1.0bn to minus £0.3bn. This was largely attributable to a number of providers recognising a negative hedge reserve balance, where hedge accounting is applied in respect of interest rate swaps.

Generally the providers switching from valuing properties at historic cost to deemed cost (therefore valuation as at 2014) saw the largest increase in reserves.

Annex: Unit costs

Sector overview

The regulator has defined a 'headline social housing cost per unit' measure to analyse Global Accounts cost data, which aims to provide a consistent and robust general measure of costs across providers. This definition, explored in the unit cost analysis published in June 2016, is set out in a note accompanying this publication. Unless stated, this annex summarises unit costs for entities rather than consolidated groups, with all figures rounded to the nearest £10.

Average (mean) headline social housing costs per unit were £3,970 per annum and increased by 1.0% between 2015 and 2016. This reflects a reduction in average major repairs (-3.7%) and maintenance costs per unit (-1.2%), balanced by growth in management costs (6.7%). The reduction in major repairs costs is a continuation of a long-term trend as the Decent Homes programme moved towards completion, but major repairs and maintenance costs may have fallen as providers reconsidered immediate investment plans in light of the announcement of the social rent reduction. Reductions in management costs often take longer to implement, and can require up-front expenditure (for example redundancy payments).

A degree of caution is required in comparing actual and forecast cost data across years, as accounting approaches and cost apportionment are subject to change. FRS102 has affected the reported management costs for some providers due to changes in accounting for pension deficits. Furthermore, some providers have taken this opportunity to revisit other aspects of accounting policy and cost apportionment, giving rise to restatements of cost lines in the 2015 baseline. Overall, restatement of costs for 2015 led to a slight reduction in headline social housing costs per unit (0.7%) and in particular management costs per unit (2.5%).

Table 20: Average unit costs (weighted mean, unless stated)

	2016	**2015 (restated)**	**Change (%)**
Management costs	£1,080	£1,010	6.7%
Service charge costs	£530	£510	3.3%
Maintenance costs	£1,010	£1,030	-1.2%
Major repairs costs	£890	£920	-3.7%
Other social housing costs	£470	£470	0.5%
Headline social housing costs	£3,970	£3,930	1.0%

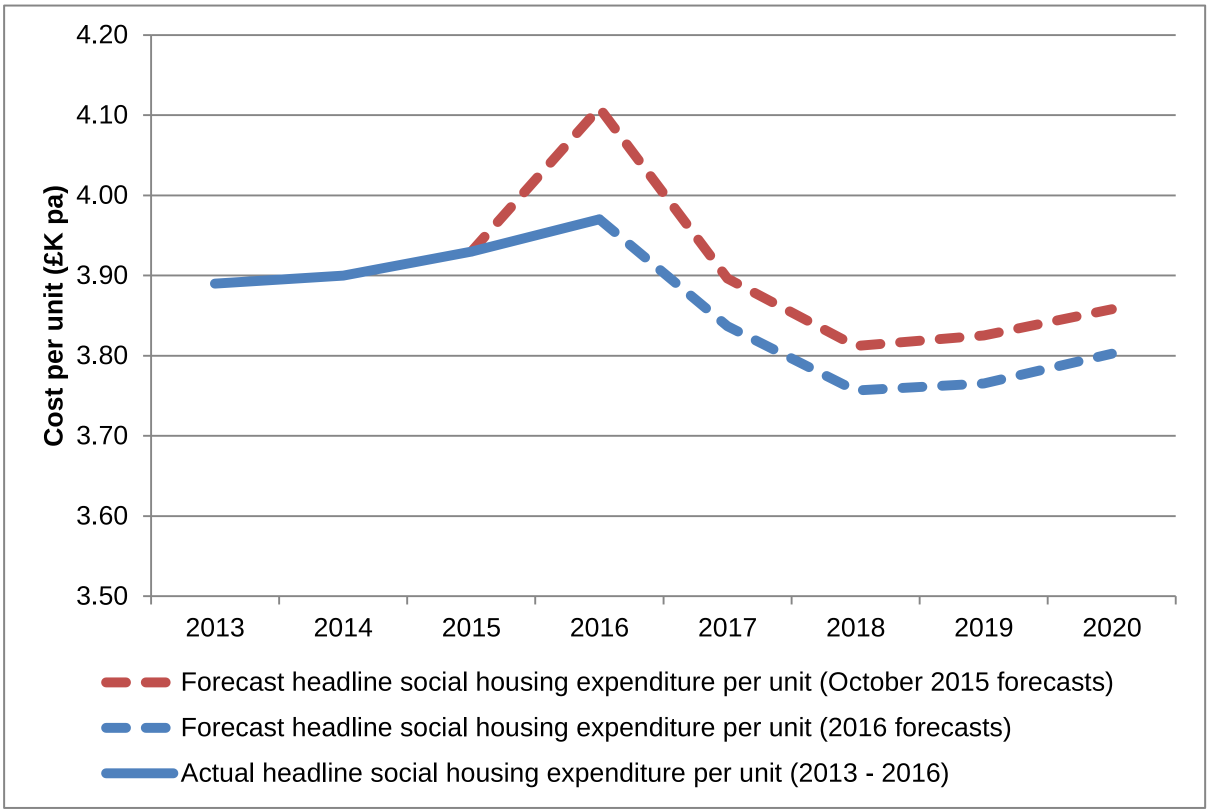
Headline unit cost projections

The regulator collects financial forecast returns (FFRs) from all providers owning and/or managing 1,000 units or more. The returns represent the financial basis of the organisations business plans. FFRs are collected each year, typically on a consolidated group basis. Following the July 2015 budget the regulator took the decision to request revised forecast submissions by October 2015, taking into account revisions to business plans in the light of the announcement of the rent cuts.

Latest 2016 FFR projections for unit costs up to 2020 are slightly lower than those made in October 2015. Headline unit costs are projected to fall by 4.3% between 2016 and 2020 to £3,800 per unit in nominal terms. Compared to forecast CPI, this represents a real terms reduction of 12.4% between 2016 and 2020.

Cost projections made in 2016 should be seen in the context of recent cost growth and projections from October 2015. In total, headline social housing costs per unit increased by 2.1% between 2013 and 2016. Real-terms growth in costs has been zero relative to CPI inflation of 2.1% over this three-year period. Headline unit costs for 2016 were significantly (3.4%) lower than projected in October 2015 (£4,110 per unit), suggesting that providers have achieved cost reductions faster than initially projected.

Figure 6: Headline social housing cost per unit by total social stock (Global Accounts and FFRs)



Longer-term cost inflation

Over a 10-year period, headline unit costs at a sector level have not grown materially faster than CPI. Compared to CPI growth of 26.8% between 2006 and 2016, management and service charge costs per unit grew by 29.8% and maintenance and major repairs costs per unit by 9.8%. The maturing of the stock transfer (LSVT) sub-sector, along with the winding down of the Decent Homes Programme, has largely driven the real-terms reduction in maintenance and major repairs costs over time. However, given that average unit costs in LSVT and traditional sub-sectors have reached near parity by 2016, the relatively sharp reduction in projected maintenance and maintenance costs to 2020 is only likely to be in part related to this longer-term trend. More detail on historic trends by sub-sector is set out in the unit cost analysis published by the Homes and Communities Agency in June 2016[21].

[21] Delivering better value for money: understanding the difference in unit costs, HCA, June 2016

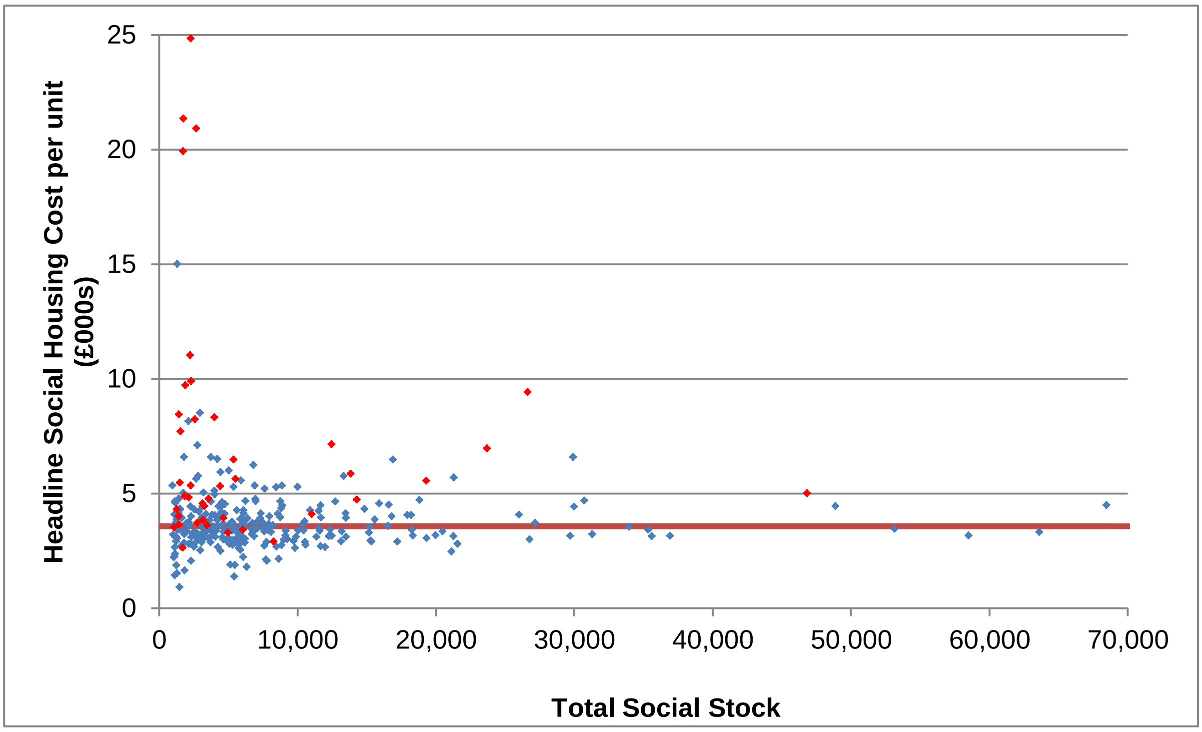
Table 21: Unit cost trends (Source: Global Accounts, 2006-2016)

	CPI (% change)	Sector (% change)	Traditional (% change)	LSVT (% change)
Management and service charge costs per unit				
2011-2016	8.6%	14.7%	12.5%	17.5%
2006-2011	16.8%	13.2%	9.6%	22.3%
2006-2016	26.8%	29.8%	23.3%	43.8%
Maintenance and major repairs costs per unit				
2011-2016	8.6%	-0.2%	15.8%	-13.8%
2006-2011	16.8%	10.0%	19.1%	2.4%
2006-2016	26.8%	9.8%	37.9%	-11.7%

Unit costs across providers

There is significant variation in costs across providers. In particular a small number of providers with large amounts of supported housing have costs of over £10,000 per unit per annum. The median headline social housing cost, less affected by these high-cost outliers than the mean, was £3,570 per unit. Lower and upper quartiles for headline social housing unit costs were £3,120 and £4,350 respectively.

Figure 7: Headline social housing cost per unit by total social stock (2015/16, entity[22])



The regulator published substantive information on unit costs in June 2016, including statistical regression analysis of the factors that explain unit cost variation across providers.

[22] Median social housing costs per unit (£3,570) shown by the horizontal line. Red markers identify providers where more than 10% of stock is supported housing (excluding housing for older people) or more than 50% is housing for older people. Graph omits one outlier supported housing entity with costs of £57 k per unit.

Around half the differences in unit costs can be explained by a small number of measured factors – statistically the most important cost drivers across the sector are owned or managed supported housing, regional wage effects and the age of stock transfers.

The Global Accounts dataset accompanying this publication includes headline and component unit costs for each provider entity and group alongside data on the most important measured cost drivers. It is important that the unit costs for each provider are seen within the context of these cost drivers and that it is understood that other factors may materially influence costs. Notwithstanding this, the regulator considers the accompanying data as the best consistent starting point for considering relative costs that can be drawn from accounts data. More information is set out in the accompanying note on unit cost data and in the unit cost analysis published in June 2016[23].

Table 22: Unit cost quartiles (2015/16, entity)

	Lower quartile	Median	Upper quartile
Management costs	£740	£1,020	£1,320
Service charge costs	£240	£360	£600
Maintenance costs	£790	£970	£1,180
Major repairs costs	£540	£810	£1,080
Other social housing costs	£80	£210	£450
Headline social housing costs	**£3,120**	**£3,570**	**£4,350**

In aggregate, mean unit costs measured at the entity level are similar to those from group level accounts (£3,960 per unit, 0.3% difference). For some providers, group level costs may diverge more significantly from aggregate entity data due to the consolidation of intragroup payments or costs associated with activities outside of England. Both group and entity level information are valid reference points and are included in the accompanying dataset.

[23] Delivering better value for money: understanding the difference in unit costs, HCA, June 2016