2018 Annual Review of Social Housing

BEEVER AND STRUTHERS

CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

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Executive Summary

Introduction

Welcome to the latest Beever and Struthers' review of social housing. We discuss the accounts and annual reports of the largest 100 Private Registered Providers (PRPs) ('Top 100') published in the 2016/17 reporting season. We also discuss a number of topical issues including taking a look at Investment Properties and Financial Instruments.

Throughout this review the 'Regulator' refers to the former Homes and Communities Agency (HCA). In March 2016 the Government announced that the HCA would be split into two new bodies, one dealing with investment and the other with regulation of PRPs.

On 11 January 2018 the non-regulatory arm of the HCA adopted a new trading name 'Homes England.' From this date onwards the HCA's regulation directorate will be known as the 'Regulator of Social Housing.'

The headlines from each section are highlighted below:

Value for Money

The Accounting Direction for Private Registered Providers of Social Housing in England 2015 requires PRPs to make a statement regarding Value for Money (VfM) in their Board report or OFR. Value for Money reporting is now an important part of the financial statements and the sector has performed strongly in terms of delivering VfM savings. The Housing Regulator has issued a consultation document on Value for Money and is likely to introduce a requirement to report on a range of metrics in 2017/18.

Governance

We have reviewed the composition of Boards once again and look at how payments to Board Members and governance have been reported. Of particular interest we note that the proportion of Top 100 RPs which pay non-executive board members remained unchanged at 89% in 2016/17 as did total remuneration paid to non-executive board members. The NHF Code of Governance states that "Boards should have at least five members and no more than 12, including any co-optees and any executive board members." We found there were 26 PRPs for whom 20% or more members were executive staff in 2016/17 compared to 13 PRPs in 2015/16.

We identified a greater frequency on viability downgrades and regrades in 2016/17 whereas our 2015/16 review had a focus on governance issues.

Risk

The management of risk continues to be a hot topic for the Regulator. Risks detailed in the Board reports within the Top 100 have remained broadly in line with last year with welfare reform remaining the most commonly identified risk, with 68 of the Top 100 raising it as a risk. Health and Safety is a significant mover this year, being the second highest rated in frequency in 2016/17, compared to fourth highest in 2015/16, which, in large part, will be a reflection of the tragic events at Grenfell Tower.

Property Sales

Four of the top ten highest total surpluses from sales in the year recorded by the Top 100 were from London and South East England compared to seven in 2015/16. Seven of the Top 100 made a deficit on their shared ownership first-tranche sales in the year, compared to four in 2015/16.

Rent Arrears

Gross arrears across the Top 100 have increased marginally in the year, from £717m to £719m. This indicates that the feared impact of welfare reform and universal credit have not yet materialised. However, the aggregate bad debt provision has increased by 3.4%, from £327m to £338m.

Capital Commitments

Our review shows that capital commitments increased by 33% in 2016/17 compared to 4.9% in 2015/16. Once again there are large discrepancies between the levels of authorised but not contracted commitments, mirroring the differences of disclosure of units in development. As expected the larger South-East based PRPs have the largest capital commitments reflecting their shared ownership and outright sales programmes.

Executive Summary

Non-Regulated Activities Reporting

Non-regulated activities reporting remains an area of increasing focus for the Regulator as the sector continues to diversify into a range of new commercial ventures and relationships, through unregulated subsidiaries, joint ventures and special purpose vehicles. Of particular interest we note that non-social housing activities turnover increased by £0.2bn to £2.4bn in 2016/17.

This increasing diversity into non-regulated activities results in regulatory concerns around the importance of not putting social housing assets at risk; and protecting the public value in those assets.

Bonds, Borrowings and Derivatives

Reported facilities for the sector have increased to £83.6bn, of which 18% was undrawn. The maturity profile of existing debt means that refinancing risk is low, 84% of debt being due for repayment in more than five years. The use of long term fixes, through bonds, fixed rate bank debt or interest rate swaps continues to provide the sector with a degree of certainty on forecasting the costs of borrowing. Bond issues and private placements contributed 54% of total new finance raised, an increase of 20% compared to 2015/16.

Impairment

Impairment remains an important issue in the sector, with 40 PRPs reporting an impairment loss on both existing assets held and those currently under development. Changes in Government policy and the continuing impact of the rent decreases to be applied remain a common explanation for impairment losses.

Investment Properties

Our review identified 77 PRPs within the Top 100 that report an investment property portfolio within their financial statements. There was an inconsistency of reporting investment property valuation gains and losses within the Statement of Consolidated Income.

Financial Instruments

49 PRPs reported ‘other’ financial instruments in the 2016/17 financial statements, with the recognition and measurement requirements of FRS 102, IAS 39 and IFRS 9 all adopted. Disclosure of financial instruments held continues to vary considerably across the Top 100 PRPs.

Pensions

Our review identified 69 of the Top 100 PRPs reported servicing a SHPS past service deficit as at 31 March 2017. The overall value of SHPS creditors have decreased compared to 2015/16 as contributions have exceeded re-measurements in the year.

Prior Period Adjustments

Our review identified 36 PRPs in the Top 100 reported prior year adjustments in 2016/17, of which 9 impacted on prior year reserves.

Executive Summary

Key: Throughout the document we have used the following symbols to draw attention to matters of particular interest:

= example of individual best practice.

= example of generic bad practice/failure to meet regulations.

= something to note or watch out for.

Value for Money

Key Points:

- **The housing sector performed strongly in terms of delivering Value for Money savings.**
- **Value for Money reporting is often of good quality but it can be hard to compare performance between Private Registered Providers.**
- **The Housing Regulator has issued a consultation document on Value for Money and is likely to introduce a requirement to report on a range of metrics in 2017/18.**

Value for Money (VfM) reporting is now an established part of the narrative sections of the financial statements.

Reporting Requirements
The Regulator's requirements in this area are set out in the Value for Money Standard, issued in April 2012. The Standard requires Private Registered Providers to publish a robust self-assessment which sets out in a way that is transparent and accessible to stakeholders how they are achieving value for money in delivering their purpose and objectives. The assessment shall:

- Enable stakeholders to understand the return on assets measured against the organisation's objectives.
- Set out the absolute and comparative costs of delivering specific services.
- Evidence the value for money gains that have been and will be made and how these will be realised over time.
  (Source: Value for Money Standard April 2012 paragraph 2.2)

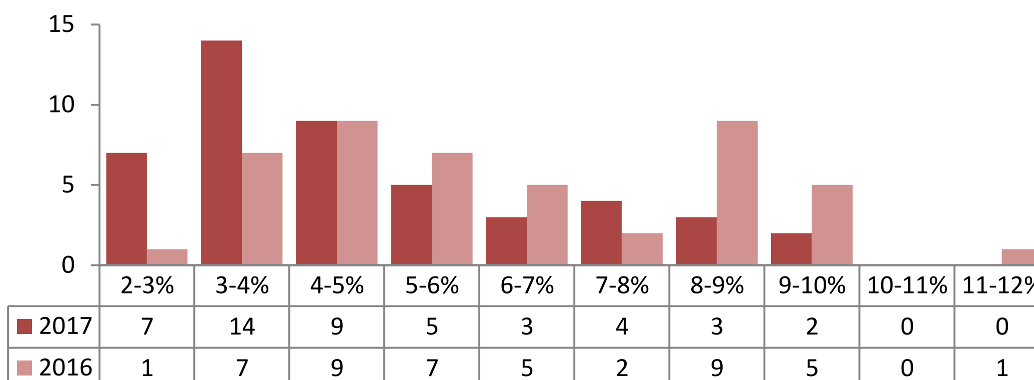
The Accounting Direction requires that:

The PRP should undertake and publish within either its narrative report an assessment of the performance of the PRP for the year which sets out to stakeholders how it is achieving value for money in delivering its purpose and objectives, in accordance with the regulator's standard on value for money. Where providers have published a separate, more detailed self-assessment than that included in the narrative report, this should be clearly signposted in order to ensure transparency for stakeholders.
(Source: Accounting Direction 2015 para 8)

In our analysis, we review how PRPs are addressing each of the three specific requirements in the Value for Money Standard.

1. **Reporting Return on Assets**
Return on assets is not defined by the Regulator. The Top 100 continue to adopt a number of different approaches to the requirement to report on return on assets, including Return on Capital Employed ('ROCE'), Net Present Value ('NPV') analysis of the housing stock, operating margins on various housing activities or a more qualitative narrative assessment of asset management.

Of 47 PRPs we noted as reporting on ROCE, there was a clear trend towards lower returns than those noted last year, as indicated in the analysis below:



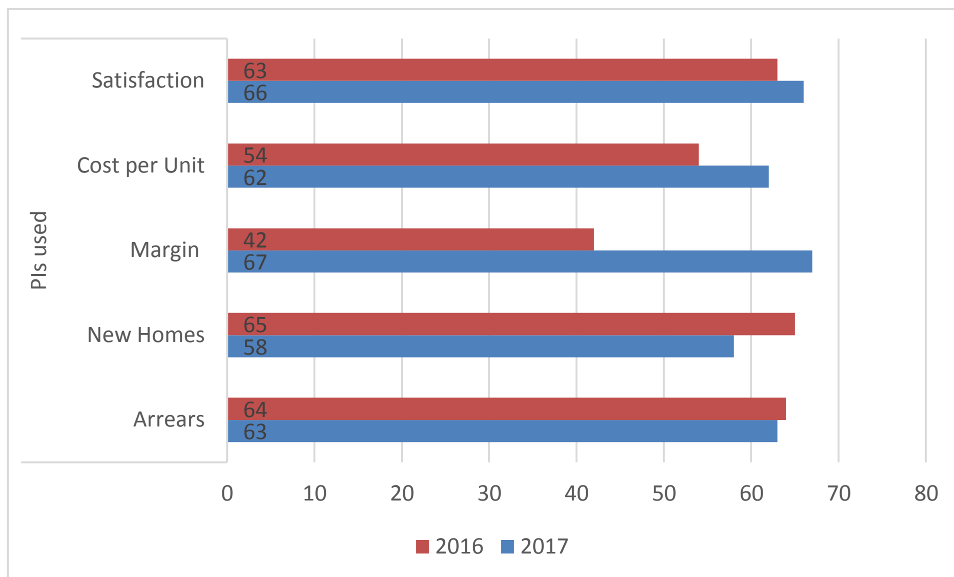
	2-3%	3-4%	4-5%	5-6%	6-7%	7-8%	8-9%	9-10%	10-11%	11-12%
2017	7	14	9	5	3	4	3	2	0	0
2016	1	7	9	7	5	2	9	5	0	1

Reporting Return on Assets
Places for People provided a good example of an alternative approach to measuring return on assets. Their VfM report notes that they have developed a dashboard to monitor financial and operational performance management data, including turnover, arrears, void and repair costs over a three-year period, which provides a red, amber or green rating for their neighbourhoods.

The lack of a standardised approach to VfM is an issue for the Regulator, which will be addressed in the revision to the VfM Standard, which is likely to be applicable to the 2017/18 financial statements (see below).

2. Reporting Absolute and Comparative Costs of Delivering Services
Benchmarking data is widely used by the Top 100 as a key part of the VfM statement to illustrate absolute and comparative performance. Our analysis identified 84 (2016: 97) of the Top 100 that provided performance indicator data in the VfM Statement and 79 (2016: 88) that provided a comparison to other PRPs in the Sector.

The most popular Performance Indicators (PIs) are set out in the table below.



The Top 100 draw benchmarking data from a range of sources, including HouseMark, the HCA Global Accounts, and local benchmarking groups. As can be seen from our analysis above, most of the Top100 report on performance indicators which encompass cost measures, operational performance and customer satisfaction.

Interestingly, The Guinness Partnership uses CEO pay per home as one of its benchmarks. Guinness reported the following:

Guinness Partnership
Senior management and Board costs are an important element of our approach in this area. Our highest paid member of staff is our CEO and we benchmark her pay against sector averages. We also use this as a basis to calculate a ratio of highest to average salary, which has fallen during the year. We also benchmark the cost of our Board Members, which has remained consistent.

Guinness Partnership	2017	2016	Benchmark
CEO pay per home	£4	£4	£4
CEO pay as a % of turnover	0.08%	0.06%	0.07%
Ratio of highest to average salary	9:1	9:1	n/a
Board member pay per home	£2	£2	n/a

Clarion provides the following analysis of Board and Executive pay in its VFM statement:

Clarion	2016/17	2015/16	Peer group weighted average 2015/16	Clarion peer group ranking	National average
Board and Executive pay per home	£26.51	£24.77	£32.80	12	N/A
Chief Executive pay per home	£3.07	£5.50	£6.80	1	N/A

Many use dashboards and graphics in creative ways to illustrate performance information.

The better VFM Reports include data from a number of years, showing performance trends over time.

3. Reporting Value for Money Gains

The Sector as a whole has a strong story to tell in relation to VfM. The HCA's 2017 Global Accounts of Private Registered Providers, published in December 2017 noted that in aggregate, headline social housing costs reduced by 7% from £3,975 per unit in 2015/16 to £3,698 per unit in 2016/17. (Source: 2017 Global Accounts page 15)

This global picture is borne out by our analysis.

Waterloo Housing Group continues to be one of the most efficient performers in the Sector, noting:

Waterloo Housing Group
A substantially increased and exceptionally high, sector leading operating margin of 44% (2016: 43%). The 110 basis points increase in our operating margin in the year represents a gain of £1.5 million, sufficient to subsidise the provision of at least 45 new homes. Our operating margin on social housing lettings also remained amongst the sector's highest, at 47%.

One of the more striking performances in the year was delivered by Home Group, who noted:

Home Group
Our financial performance during the year has been strong, and we have exceeded our challenging target of £27.7million efficiency savings. These savings have helped offset the impact of the 1% rent reduction, contributing to an increase in surplus after tax to £47.4 million from £44.2 million in 2015/16.

Efficiency savings £m	2016/17 target	2016/17 actual
Procurement savings	5.0	4.4
Maintenance costs	11.0	13.8
Employment costs	6.2	4.9
Overheads	5.5	6.0
Total	27.7	29.1

Value for Money

The Sector has seen much merger activity of late, many of which have been driven by a desire to improve efficiency. This is reflected in the VfM statements. Sovereign note, of their merger with Spectrum Housing Group:

Sovereign
Value for money is a key focus for Sovereign's Board and Executive Board and was a significant driver in the decision to merge. As a single organisation we are stronger, our increased scale means we can deliver greater efficiencies and we are more resilient for the future.

As a business we are continuously striving to improve the way we work so we can provide better services to our residents and build increasing numbers of affordable homes in our core operating area. Value for money is central to this and underpins our strategy.

Prior to merger, both Boards had set ambitious five-year efficiency targets to meet the challenges of our changing policy environments. These targets combined were to deliver £24m of saving to annual costs over five years from 2015/16; we have delivered £21.5m at the end of 2016/17, of which £17.8m was in the year.

Sovereign Post-merger, the Board has set a new savings target to reduce our costs by a further £10m a year. These targets have been consolidated with the pre-merger savings targets and built into our financial plans.

The Top 100 were not just limited to reporting financial gains; many reflected on social and environmental value as well. Midland Heart noted the following in relation to Social and Environmental Value.

Midland Heart
Our work to provide high quality housing and support services is underpinned by our continued commitment to deliver social value. Midland Heart works with a number of local partners across our region to create opportunities or bring about mutually beneficial outcomes for both those organisations and our customers. As part of their organisational Corporate Social Responsibility, partner organisations are often able to support us by donating their knowledge, time, energy and resources across a variety of activities, depending on their skillset, and put something back into their local community. This work brings real benefits for Midland Heart and creates some great opportunities for our customers and the communities in which we operate. There have been many ways in which we have received support in the past year and together we have demonstrated wide ranging social and environmental value, we:

- Created 14 apprenticeships through the Midland Heart apprenticeship programme and engagement with our supply chains
- Given employment support opportunities to 117 individuals through Midland Heart and our supply chains
- Supported 740 customers to have face to-face money advice support
- Released 10 employees to mentor in a Birmingham school
- Delivered 130 life skills sessions to support customers with healthy eating and to learn to cook
- Through engaging our supply chains we packed over 200 gift boxes for those experiencing homelessness this Christmas.

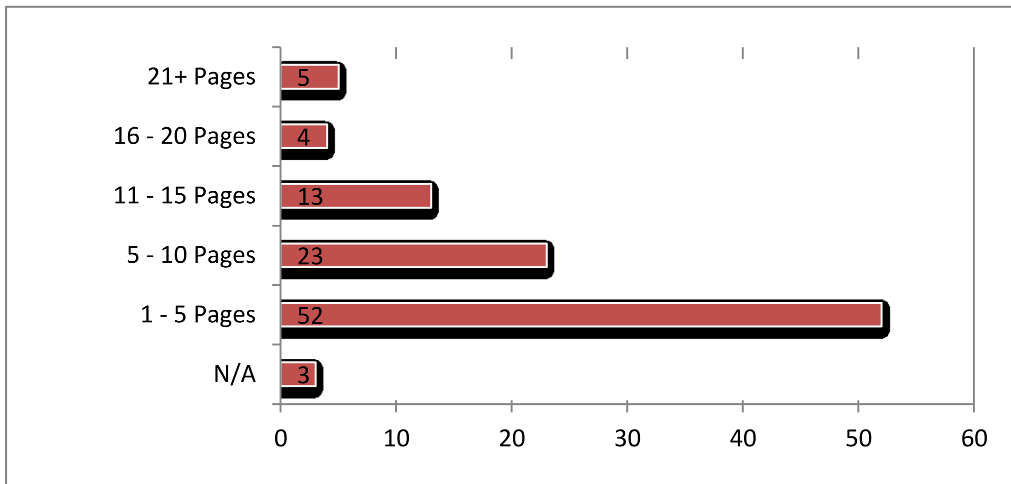
A balanced VfM report will include a reflection on where things have not gone well, as well as successes. Having noted where it had performed strongly in the year, Riverside's VfM statement reflects that:

Riverside Group
However we have not met all of our targets. We have had to respond to major changes in our operating environment, not least welfare changes which have eroded the incomes of many of our customers, and enforced rent reductions which have reduced our own revenues. Despite disposing over 2100 homes over the period of the plan, our ability to use this to shrink our geographical footprint has been impeded, as other housing associations reviewing their own strategies have been less willing to acquire and sell stock. Significant organisational transformation has also had an impact on colleagues, and we have missed a number of our 'Great People' targets in building staff engagement.

Length of VfM Reports
Our analysis indicates that 52% of the Top 100 opt for a VfM report of between 1 and 5 pages in length. The average length was 7.2 pages.

Value for Money

Plymouth Community Homes had the longest VfM report, at 28 pages. This made up more than a quarter of the financial statements' 103 pages.



The three PRPs noted as N/A in the graph above did not include a separate VfM report, but interspersed VfM information throughout their Strategic Reports.

Many of the Top 100 shorten the VfM report in the financial statements by signposting to a separate, more detailed document. This may prove to be an attractive option for the 2017/18 financial reporting, as auditors' responsibilities are extended in relation to narrative reporting, as noted below. The less auditors have to review within the financial statements, the lower the additional cost of this review will be to PRPs.

Future Reporting Requirements

The Regulator's requirements in relation to VfM are rather vague and this has resulted, as we have noted in previous Top 100 reviews, in VfM reports which are variable in terms of clarity and length.

The Regulator is proposing to revise and strengthen the Value for Money Standard from April 2018 and issued a consultation document in this area in September 2017. The consultation on the revised standard closed on 20 December 2017.

The proposed revision to the Standard requires providers to report against their own defined VfM targets as well as against common VfM metrics.

The metrics are drawn from a pilot undertaken by the Sector Scorecard Working Group and are:

- Investment in properties as a percentage of the value of total properties held.
- Number of new social and non-social housing units acquired or developed in the year as a proportion of total social and non-social units.
- Gearing percentage.
- EBITDA MRI (Earnings before interest, tax, depreciation, amortisation, major repairs included) percentage.
- Social housing cost per unit.
- Operating margin percentage.
- Return on capital employed (ROCE).

We noted 11 of the Top 100 who were part of the pilot reported on these metrics in the 2016/17 financial statements.

Reporting on these metrics will be an interesting development for the 2017/18 financial statements. The new requirements will coincide with an extension of auditors' responsibilities in relation to narrative reporting (ISA 720 The Auditor's Responsibilities Relating to Other Information is applicable for periods commencing on or after 17 June 2016).

Value for Money

PRPs should therefore be speaking to their auditors to ensure that timetables for producing and auditing the VfM metrics in the 2017/18 financial statements are understood and appropriate, and that appropriate backing documentation is available for auditors to do their work.

Conclusion

Value for Money reporting has come a long way and is now an important part of the financial statements. The Housing Regulator's proposed changes to this area should build on this, moving to a more outcome and costs based focus.

Governance

Key Points:

- **The average size of PRP Boards has remained at 10.**
- **The percentage of PRP's which pay non-executive board members is unchanged at 89%.**
- **Total remuneration paid to non-executive board members increased by 1% to £8.6m in 2017 (2016: £8.5m).**
- **The percentage of PRPs for which 20% or more of the board members were executive staff, increased from 13% in 2016 to 26% in 2016/17.**
- **18 PRPs received either a "G2" or "V2" or both, an increase from 6 PRPs in 2015/16.**

We have reviewed the composition of Boards once again and looked at how payments to Board Members and governance have been reported. Of particular interest is that the percentage of PRP's for which 20% or more of the board members were executive staff, increased from 13% in 2015/16 to 26% in 2016/17. Additionally, G2 and V2 regulatory judgements have become more common, with 18 PRPs receiving either a "G2" or "V2" or both; an increase from 6 PRPs in 2015/16.

Composition

The National Housing Federation's (NHF's) Code of Governance 2015 states that each organisation is to decide on its best Board composition, and "Board members who are executive staff members to be in a minority".

We found this to be the case for all PRP's within the Top 100. There were 26 PRP's for whom 20% or more of the board members were executive staff. This represents a 100% increase on last year (13 in 2016). The highest percentage of executive staff board members was 41% (Places for People Group Limited (Places for People)).

The Code of Governance also states "Boards should have at least five members and no more than 12, including any co-optees and any executive board members."

The largest Board consisted of 13 members, whilst the smallest consisted of 5 (Waterloo Housing Group).

There was no correlation between the size of the PRP and the size of board.

3 PRP's had 13 Board Members at the date of the Board Report; all have adopted the NHF Code of Governance. One of them - Gentoo Group Limited, includes a statement in the Directors' Report:

Gentoo Group Limited

"The structure of the Board is made up of 13 members, comprising three local authority Councillors, seven independents, one tenant member, one co-optee and one executive member."

The other 2 PRP's do not comment on Board size.

Code of governance

Whilst the majority (76%) of PRPs use the NHF Code of Governance (2015), we noted that:

- 7% use the UK Corporate Governance Code (the UK code) (8% 2016).
- 17% use the NHF Code, but have not specified which date (8% 2016)
- 0% use the NHF Excellence in Governance (2010) (1% 2016)

Governance

The UK Code is the governance benchmark for corporate entities. Whilst not specifically designed for PRPs, it sets standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. It is also less specific in relation to Board size than the NHF Code:

"The board should be of sufficient size that the requirements of the business can be met and that changes to the board's composition and that of its committees can be managed without undue disruption, and should not be so large as to be unwieldy. The board should include an appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking."

All 7 PRP's who have adopted the UK Code had done so prior to 2016/17. 6 of the 7 PRP's have at least 10% Executive Director membership of the Board. The one remaining PRP, Anchor Trust, has no Executive Directors on the Board.

3 of the PRP's give specific reasons as to why they have adopted the UK Code:

Anchor Trust
In 2010 Anchor's Board adopted the UK Code and each year is required to undertake a self-assessment of its compliance with the UK Code. Anchor chose to adopt the UK Code because its requirements set high standards in relation to Board leadership and effectiveness, and because of the breadth of services which Anchor operates across the housing and care sectors.

Bromford Housing Group Limited
The Code reflects our commercial outlook, focus on achieving the highest possible standards of accountability and transparency and our desire to position ourselves alongside other high- achieving organisations, regardless of sector.

Aster Group Limited
The Code contains broad principles and specific provisions which set out standards of good practice in relation to leadership and effectiveness, remuneration, accountability and relations with shareholders.

Compliance with the Governance and Financial Viability Standard
1 PRP declared that it did not comply fully with the Governance and Financial Viability Standard because it had received a governance rating of "G3" in 2015/16. Symphony Housing Group Limited provided an update on internal control difficulties that it had previously reported to the Regulator for Social Housing (RSH) (the Homes and Communities Agency (HCA) throughout 2016/17). The PRP has not been reassessed by the RSH since receiving the downgrade.

Note: Symphony Housing Group Limited changed its name to Onward Homes Limited on 3 May 2017.

Symphony Housing Group Limited
During the year work to address the issues which were identified has been undertaken and the audit and independent assessment of whether sufficient work has been done to request a regrading by the HCA is underway.

There were no other PRPs in the top 100 who received a "G3" or "V3" prior to publishing the financial statements. Gentoo Group Limited received a Governance downgrade to "G3" in October 2017.

Transparency of reporting regulatory judgements
PRP's have taken varying approaches to reporting regulatory judgements of either G2 or V2, possibly because these ratings are still compliant with the Governance and Financial Viability Standard.

18 PRPs received either a "G2" or "V2" or both, an increase from 6 PRPs in 2015/16. The following two examples were seen where the PRP had commented specifically on the grading and action taken:

Genesis Housing Association Limited G1 V2 (31/05/20176)
The HCA judgement, based on its revised approach to viability assessments, was that Genesis has carried out detailed stress testing across a range of business risks, including sales delays and a drop in sales values, increases in interest rates and inflation affecting operating expenditure and development costs and increases in bad debts. This has demonstrated that Genesis has the financial capability to deal with a reasonable range of exposures but needs to manage the material risks identified in the stress testing arising from in growth and sales strategy to ensure continued compliance. A similar re-grading has taken place among other associations in the sector, for the same reasons.

Bolton at Home Limited G2 V2 (31/05/2016)
The organisation underwent an In Depth Assessment (IDA) during May 2016 which confirmed the governance rating for the organisation as G2. Whilst recognising that Bolton at Home complied with the governance requirements of the Governance and Financial Viability Standard, the assessment noted improvements were needed in the areas below:

- Embed recent changes made to its risk assurance framework, including integrating internal control arrangements and improve governance control over a key risk area (data integrity).
- Maintaining a thorough, accurate and up to date record of assets and liabilities.

The remaining 6 PRP's who received either a G2 or V2 rating, or both, reported only that that they were compliant with the Governance and Financial Viability Standard:

- Your Housing Group Limited – G2
- Asra Housing Group Limited – G2 and V2
- The Wrekin Housing Group Limited – G2 and V2
- One Housing Group Limited – G2 and V2
- Aldwyck Housing Group Limited – V2
- Salix Homes Limited – V2

Pay
The percentage of PRP's within the Top 100 paying non-executive board members is unchanged since 2015/16 and remains at 89%, with 3 PRPs paying non-executive board members for the first time in 2016/17 and 3 PRPs from last year falling out of the Top 100. Whilst the top 10 PRPs all pay non-executive board members, there is no correlation between the size of the PRP and the decision to pay.

Of the 3 PRPs which started paying non-executive board members in 2016/17, only one PRP's total non-executive emoluments were above £100k (Together Housing Group Limited £131k).

The total remuneration paid to non-executive board members increased to £8.7m in 2017 from £8.6m in 2015/16, representing a 1% increase.

Places for People makes the highest accumulated payments to Non-Executive Directors (£315,000). The board is comprised of the Group Chairman, seven non-executive directors and five executive directors.

First Choice Homes Oldham Limited make the lowest accumulated payments to Non-Executive Directors (£6,000). The board is currently comprised of the Group Chairman and ten non-executive directors. However, the Chair of the Board is currently the only member to receive emoluments.

Of the 89% of PRP's who pay non-executive board members, 76% use the "NHF Excellence in Governance 2015" as their code of governance. The remainder use the UK Corporate Governance Code and the NHF Code, but without declaring which year.

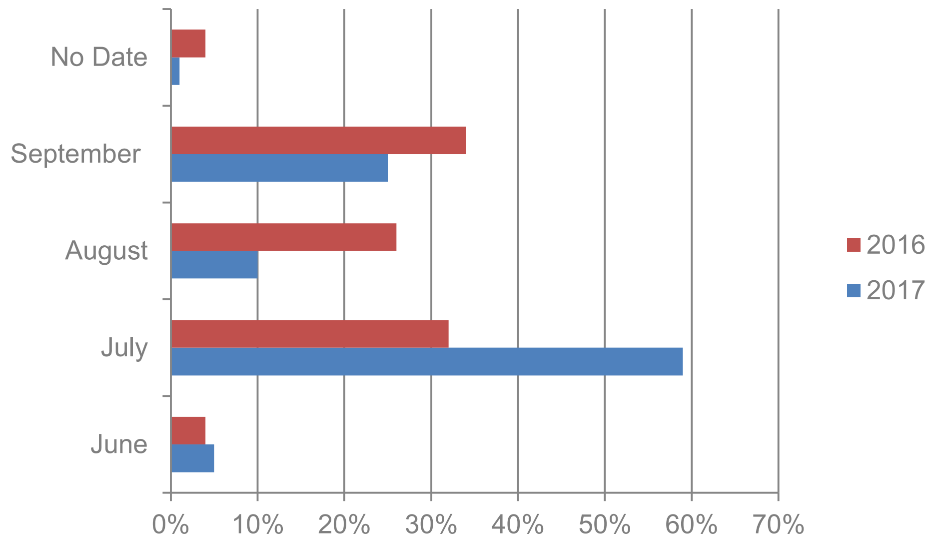
The NHF Excellence in Governance Code requires that payments to non-executive board members must be fully disclosed on a named basis in the PRP's annual financial statements. 11 of the 76 users of the Code did not fully disclose on a named basis as required.

Governance

The average total non-executive emoluments for the 89 PRP's was £100k.

Sign off
All PRP's are required to submit signed financial statements to the Regulator within six months of the year end. All PRPs in the Top 100 have a 31 March Year End, so financial statements are required to be filed by 30 September.

From a review of the Board approval dates, we note the following:



- As in the prior year, Accent Group Limited was the first to sign off their 2016/17 financial statements, with a sign off date of 21 June. There were just 4 other PRPs signing off in June.
- July was the most popular month for sign off, compared to September in the previous year.
- One PRP did not report the audit sign off date within the audit report, however had signed off the financial statements prior to 30 September.

Governance

Regulatory activity - Regulatory judgments
Within the Top 100 there were six downgrades issued in 2015/16 which we noted in our review last year. We have followed up their current status as noted below:

- Symphony Housing Group was downgraded to G3 from G1 as it was unable to provide assurance of compliance with statutory health and safety requirements; and it did not have a robust system in place at group level to manage its housing stock. Symphony was subsequently upgraded to G2/V1 at the end of January 2018.
- One Housing Group was downgraded to G2 due to insufficient assurance regarding the transparency and accountability of their governance arrangements. No change to current grading of G2/V2.
- The Wrekin Housing Group was downgraded to G2 from G1 because of the need to improve effectiveness of management of the business at a group level as well as a need to strengthen its oversight and control of group risks. In November 2017 the Group was regraded from V1 to V2 reflecting a relatively low level of loan covenant headroom in its financial forecasts coupled with a higher proportion of debt for its size.
- Curo Group was downgraded to G2 from G1 following a recognition in their financial statements of the need to improve governance arrangements. The Group put in place a plan which included reducing Board size, streamlining committee structures, improving learning and development at Board level, and enhancing executive and non-executive relationships. G1 status was subsequently attained in June 2017.
- Magna Housing Group (Magna) was downgraded to G2 from G1. This was due to concerns over value for money as the board were unable to demonstrate that it fully considered the most effective strategy for delivering its objectives. Magna was upgraded in January 2017 following implementation of a five year strategy in which the board demonstrated its effectiveness along with improvements in its value for money self-assessment. Since this time Magna has received a further regulatory judgement confirming its G1 V1 status.
- Derwent Housing Association (Derwent) was downgraded to G3/V3 from G1/V2. This was due to the lack of evidence that there was effective risk management, internal controls or board scrutiny across the subsidiaries. The viability downgrade was due to a lack of assurance over Derwent's ability to manage its exposures, as well as inadequate monitoring of its covenant compliance. In addition, evidence that its mitigation strategies will be effective in practice could not be obtained. Since the downgrade the PRP has become a subsidiary of Places for People.

In 2016/17 we have noted a higher number of downgrades and regrades (to a lower rating) than in our prior year review. For example, we noted 11 downgrades or regrades in the Top 100 in this year's review versus six in 2015/16. For the sector as a whole we noted 32 downgrades or regrades versus 19 in our 2015/16 review. This is perhaps indicative of the direction that G1/V1 status is no longer meant to necessarily represent a 'normal' rating and that G2/V2 is also compliant.

In this 2016/17 review we have included regulatory judgements up to November 2017, which included 3 downgrades across the sector.

The 11 downgrades or regrades from the Top 100 are noted in more detail below:

- GreenSquare Group Limited was regraded to V2 from V1 due to its forecast debt burden in relation to the size of its operations and that market sales are now a major element of its business plan and are higher in comparison to other providers.

- Hyde Housing Association Limited (Hyde Housing) was regraded to V2 from V1 as a consequence of its large and diverse development programme and an increased exposure to sales revenue. Significant funding is required and Hyde is in the process of re-structuring its loan portfolio which is expected to bring longer term benefits and reduce treasury risk.

- Peabody Trust was regraded to V2 from V1 as a consequence of its large and diverse development programme and associated higher exposure to sales. Stress testing of the business plan indicates it can deal with a reasonable range of exposures but these need to be managed closely.
- The Wrekin Housing Group Limited has been regraded to V2 from V1. This is noted above following on from its G2 downgrade as reflected in our prior year report. The viability downgrade reflects a relatively low level of loan covenant headroom in its financial forecasts coupled with a higher proportion of debt for its size.
- Gentoo Group Limited has been downgraded to G3 from G2 reflecting inadequate control and scrutiny at board level in discharging its responsibilities, including its probity arrangements, with regard to executive contracts and severance payments.
- WM Housing Group Limited was downgraded to G2 from G1 after it reported to the regulator a breach of the Tenancy Standard with regard to its eviction processes at one of its temporary accommodation schemes.
- Network Homes Limited had a viability regrade to V2 from V1 reflective of pressures on the business plan from low returns on social housing and its development and sales forecasts being key areas to its future performance.
- Chelmer Housing Partnership Limited was downgraded to G2 from G1 due to issues raised on board member recruitment, risk reporting and the need for improved linkage between key risks and stress testing.
- Catalyst Housing Limited was downgraded to G2 from G1 due to issues raised on controls around the procurement of services, fittings and sales to connected parties. After an In Depth Assessment by the Regulator Catalyst was upgraded back to G1 status in July 2017.
- Genesis Housing Association Limited had a viability regrade to V2 from V1, which reflects a need to continue to manage material risks in the business plan emanating from relatively high unit costs and low returns from social housing compared to others in the sector.
- Orbit Group Limited had a viability regrade to V2 from V1 due to its development and sales programme heightening the risk in the business plan.

We also noted a number of Top 100 PRPs who were upgraded to G1 either in 2016/17 or the period to the end of November 2017. These include:

- Together Housing Group
- Your Housing Group
- Curo Group (Albion) Limited
- Magna Housing Group

Regulatory activity - Regulatory Notices

There were eight regulatory notices issued in 2016/17 although only two relate to the Top 100. The notice for Clarion Housing Group Limited, via a predecessor organisation Circle Anglia Limited, related to the repairs and maintenance function. WM Housing Group Limited also received a notice for a breach of the Tenancy Standard regarding notice periods for eviction given to tenants at one of its temporary accommodation schemes.

Of those outside the Top 100, three of the six regulatory notices issued during the period were for gas safety issues, two for fire risk assessments (one of which also included decent homes standard concerns) and the remaining one for breach of loan covenants.

Conclusion

Overall the main themes of regulatory judgements and notices within the Top 100 and the wider sector are:

- Greater frequency on viability downgrades and regrades in this review whereas our 2015/16 review had a focus on governance issues.
- Diverse and ambitious development programmes are adding a higher level of risk into the Top 100 impacting on business plan headroom and covenant compliance. This reflects our findings on key risks (see Risk section), where Development now appears in 45% of the Top 100 board reports compared to only 15% in 2015/16.
- More V2 ratings becoming the ‘norm’.
- PRPs are taking appropriate action in response to regulatory notices, with a number of Top 100 PRPs regraded to G1
- Board oversight and risk management is the main driver for Governance issues.
- Breach of health and safety regulations including gas safety and fire assessments are still present but have appeared with less frequency than we have seen previously.
- VfM implementation and reporting appear with less frequency.

Risk

Key Points:

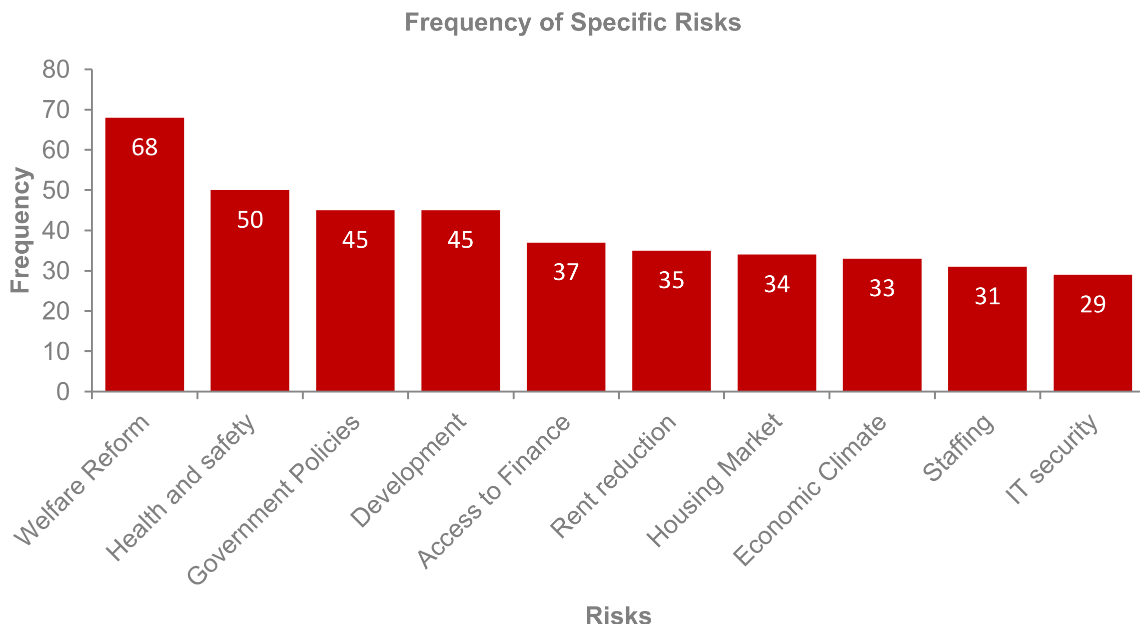
- **The most frequent risks detailed in the Board reports within the Top 100 remain broadly in line with 2015/16, for example, three of the top four risks remain consistent to the prior year, but we have noted more significant movers lower down the top 10 risks.**
- **Welfare reform remains the most commonly identified risk with 68% raising it as a risk.**

Risk analysis

The top three risks identified in 2016/17 by the Top 100 are:

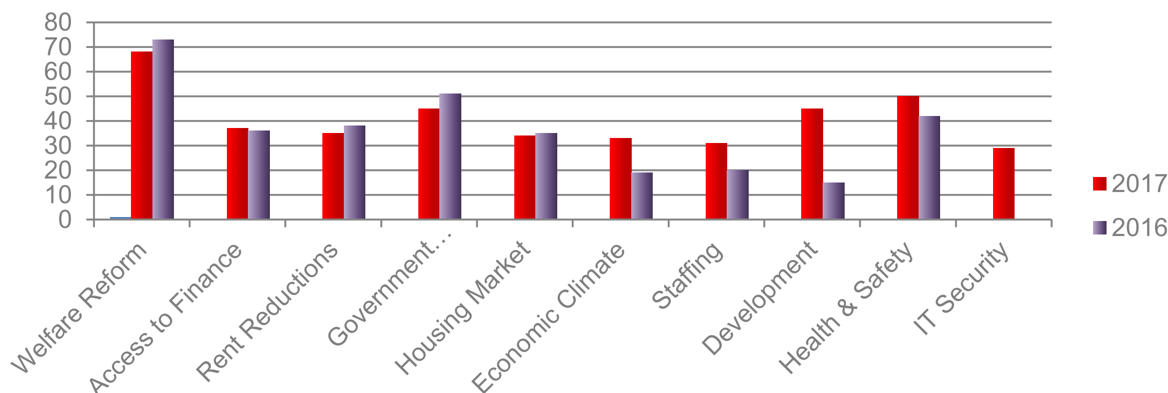
- Welfare reform was identified by 68 PRPs compared to 73 last year. This has remained the most identified risk in each of the last three years.
- Health and safety is a significant mover, being the second top rated risk in 2016/17 with half of the Top 100 PRPs highlighting it. This risk was fourth highest in frequency in 2015/16 but its prominence has heightened even more which, in large part, will be a reflection of the tragic events at Grenfell Tower.
- Government policy has remained in the top three risks albeit dropping by one place since the prior year. Its frequency in the Top 100 analysis has fallen slightly from 51 to 45 since 2015/16. This was a big mover in our analysis last year following on from the government's July 2015 budget announcement of the 4-year 1% rent reduction which, given its timing, would not have featured in all 2014/15 financial statements.

The graph below sets out the top ten risks identified by the Top 100 in 2016/17:



Total risks noted by the Top 100 amounted to 617 in 2016/17 compared to 613 risks in 2015/16, so very little change, which is in contrast to the prior year movement when there was an average of one extra risk per PRP. Our analysis identified one PRP for which we could not identify individual risks and therefore the total risks for 2017 are understated in this regard.

Risk analysis (continued)
The graph below shows the 2016/17 top ten risks and compares the number of times this risk was raised compared to 2015/16:



Health and safety has continued to increase in prominence over the past three years and is now the second most frequently documented risk. This is still a key area for potential governance downgrading due to gas safety and fire risk assessment failures and, in particular, reflects additional scrutiny following the events at Grenfell Tower.

IT Security did not appear at all in our 2015/16 review but was included by 29 of the Top 100 in 2016/17. Given the prominent cyber-attacks seen in 2017, in particular the 'WannaCry' ransomware that impacted the NHS and others, along with the General Data Protection Regulation (GDPR) which comes into effect May 2018, it is not surprising that IT security should now feature in the top 10 risks.

Development risk has seen a significant rise in frequency with 45% of the Top 100 including it versus only 15% in 2015/16, making it now the fourth most frequent risk. Its prior year ranking is potentially more of an anomaly here, but there has certainly been a refocus from the sector to deliver more homes for rent, and outright sale, with PRPs moving towards larger and sometimes diverse programmes of work. Merger and acquisition activity has also been a driver to fund more ambitious development programmes in the sector.

Staffing is an area that has moved into the top 10, increasing in frequency to appear in 31 of the Top 100 financial statements in 2016/17, compared to 21 in 2015/16. At the time of the government's July 2015 budget and subsequent 1% rent reduction over 4 years the sector had to significantly remodel existing business plans which included reviewing all areas of expenditure, including wages and salaries. To attract, and retain, experienced and skilled staff in the sector competitive remuneration is clearly a factor as is ensuring staff are not working under excessive pressure caused by reduced team numbers.

Economic climate has increased from 19 to 33 occurrences in the current analysis. In the prior year it was replaced in the top 10 by 'EU Referendum / Brexit' and these have switched again with the latter falling away to twelfth most prominent in 2016/17. This is not surprising as the referendum vote took place in June 2016 just ahead of financial statements approval for many PRPs so 'Brexit 'would have been at its most prominent.

The key point is that whether under the Brexit heading or Economic climate, uncertainty is likely to remain for some time yet.

A notable mover out of the top 10 is Governance. This had been steadily increasing in frequency during the previous two years but has fallen back to the thirteenth most frequent risk in the current analysis. Reputation risk, perhaps linked to this, has also fallen away from the top 10 this year to eighteenth. This movement is surprising, as whilst deregulatory measures for social housing regulation came into force on 6 April 2017 allowing greater autonomy in certain areas, the overall regulatory environment is not diminished.

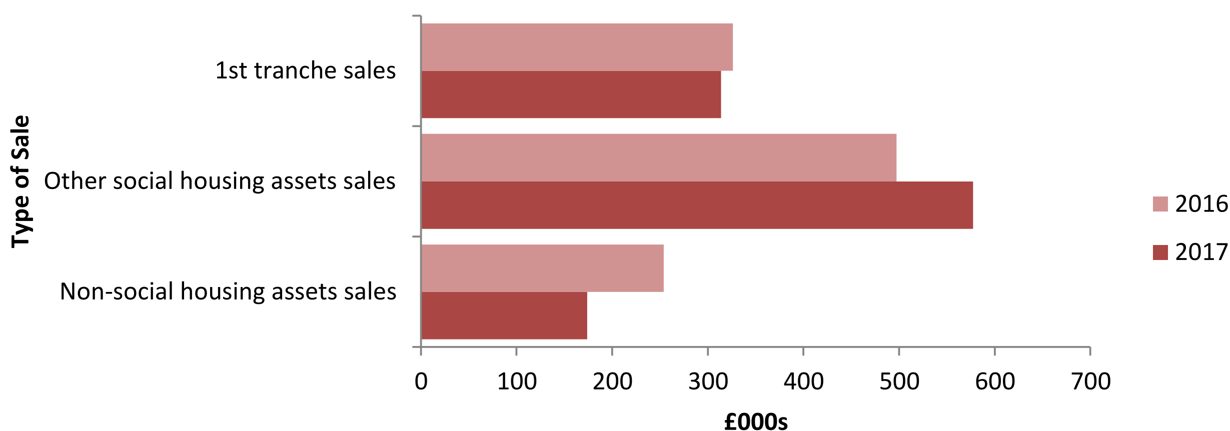
Property sales

Key Points:

- **Total property sales by the Top 100 have decreased slightly by 1% this year, amounting to £1,065M compared to £1,077M in 2016.**
- **From the top ten highest total surpluses from sales in the year recorded by the Top 100, four were from London and South East England and three were countrywide providers.**
- **Seven of the top 100 made a deficit on their first-tranche sales in the year, compared to four reported in last year's review.**

Analysis of surplus:

First tranche sales:
Eighty two (2016: 83) RPs made first tranche sales in 2017, generating income of £314M (2016: £326M). As expected, London based RPRs generated the largest surpluses on first tranche sales. London & Quadrant Housing Trust £33M narrowly beat Notting Hill £32.7M who have topped the table for the previous three years.



Other social housing Assets:

There has been a sharp increase in the other social housing assets sales for those PRPs who disclosed the split of other social housing and non-social housing assets sales from £497.3M in 2016 to £577.5M in 2017.

London & Quadrant Group had the highest surplus on other social housing asset sales in 2017 with £53M. Four of the top five are London based and the other countrywide.

Non-social housing assets:

Against the trend of increasing surpluses from asset sales, the non-social housing assets sales has decreased from £284M in 2016 to £215M in 2017. The highest surplus from the sale of non-social housing assets was achieved by £26.8M by One Housing Group Limited (2016: £24.5M) which generated from sales of 295 properties developed for market sale (2016: 247).

(Eight RPs did not split surplus/(deficit) from other social and non social housing asset sales. The total surplus for these eight was £22M (2016: £19M)

Note: we have excluded "other" surplus/deficit on sale of assets in this analysis due to variations across the classifications used by the Top 100 RPRs.

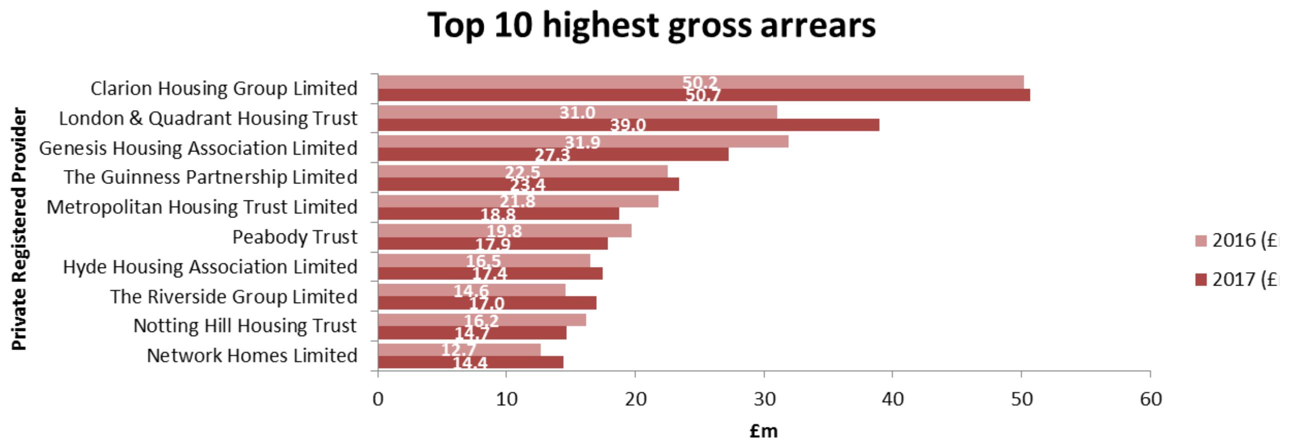
Rent Arrears

Key Points:

- **Total gross arrears have increased very marginally across the Top 100 to £719m in 2016/17, from £717m in 2015/16.**
- **The aggregate bad debt provision has increased by 3.4%, from £327m to £338m.**

Gross arrears across the Top 100 have remained relatively static compared to the prior year end at £719m (2016: £717m). This indicates that the feared impact of welfare reform and universal credit has not yet materialised. Welfare reform continues to be the most commonly identified risk, with 68 PRPs discussing this in their Board Reports. This figure is however reducing, having been identified as a risk by 73 PRPs in the prior year.

The graph sets out the top 10 highest gross arrears:



The aggregate bad debt provision recorded by the Top 100 has increased by 3.4% in 2016/17, from £327m to £338m, averaging £3.4m per provider (2016: £3.3m). Average coverage of rent arrears was therefore 47.0% in 2016/17 (2016: 45.6%).

The PRP with the highest bad debt provision to gross rent arrears ratio was Liverpool Mutual Homes Limited where rent arrears coverage is 98% (2016 – 96%).

Capital Commitments

Key Points:

- **Capital commitments increased by 33% in 2016/17 to £20bn compared to an increase of 4.9% to £15bn in 2015/16.**
- **There are large discrepancies between the levels of authorised but not contracted commitments, mirroring the differences of disclosure of units in development.**
- **London and Quadrant disclose the highest level of capital commitments (£2.2bn) followed by Clarion Housing Group (£1.2bn).**

Introduction

Total capital commitments increased by 33% across the Top 100 in 2016/17 to £20bn compared to £15.0bn in 2015/16. The split between 'contracted for' and 'authorised but not contracted for' commitments in 2016/17 has remained the same at 53%:47%.

Disclosures

There are some interesting variations between the 'contacted for' and 'authorised but not contracted for' commitments.

Ninety eight of the PRPs (2016: 99) report 'contracted for' commitments. The contracted commitments disclosed ranged from £0.5m (Anchor Trust) (2016: £0.7m One Manchester) to £1.5bn (London & Quadrant) (2016: £1.0bn, London & Quadrant).

Magna Housing Group and Your Housing Group reported nil 'contracted for' commitments.

Eleven PRPs (2016: 12) report nil 'authorised but not contracted for' commitments, the most notable being Network Homes which has the sixteenth highest contracted commitments at £284m.

The differences between the levels of authorised but not contracted commitments mirror the differences in disclosure of units in development and arise from the point at which each PRP regards capital expenditure as authorised. Hence the authorised but not contracted figure is not necessarily comparable between PRPs.

As expected the larger South-East based PRPs have the largest capital commitments reflecting their shared ownership and outright sales programmes. Places for People most notably has the second most 'authorised but not contracted for' commitments (£689m) with only (£34m) 'contracted for' commitments where they place 52nd which is a similar profile to last year.

The top 10 by value in terms of capital commitments, ranked by total commitments and showing the spilt between the contracted and authorised not contracted is shown in the table below. Only Orbit Group operates outside of London and the South-East.

Capital Commitments

	2017			2016		
	Contracted (£000)	Authorised not contracted (£000)	Total (£000)	Contracted (£000)	Authorised not contracted (£000)	Total (£000)
London & Quadrant Housing Trust	1,478	771	2,249	1,027	595	1,622
Clarion Housing Group Ltd	696	491	1,186	217	508	725
Hyde Housing Association Ltd	537	607	1,143	443	362	805
Notting Hill Housing Trust	803	262	1,065	282	126	407
A2Dominion Housing Group Ltd	415	493	908	252	340	592
Orbit Group Limited	406	432	837	478	452	930
Family Mosaic Housing	255	478	734	485	106	591
Places for People Group Ltd	34	689	723	33	488	521
Metropolitan Housing Trust Ltd	505	209	714	132	221	354
Home Group Limited	159	554	713	73	367	440

There have been significant movements within individual PRPs total capital commitments. The largest decrease in total capital commitments is for Catalyst Housing Limited, a 50% decrease from £252m in 2015/16 to £125m in 2016/17.

In comparison Notting Hill Housing Trust disclosed an increase of 162% for its total capital commitments, increasing from £407m in 2015/16 to £1,065m in 2016/17.

Non-regulated activities reporting

Key points:

- **Non-social housing activities contribute £2.4bn of total turnover compared to £2.2bn in 2015/16.**
- **There are varying levels of disclosure across the Top 100 PRPs.**

There is varied disclosure across the Top 100 PRPs on the performance of income streams from non-social housing activities in the board report and value for money statements.

The Accounting Direction 2015 details what particulars of turnover should be analysed but is silent on what should be included in non-social housing activities and how it should be analysed. However it does prescribe that material items should be separately disclosed:

Note A – Particulars of turnover, cost of sales, operating expenditure and operating surplus

	Turnover	Cost of Sales	Operating Expenditure	Operating Surplus /(Deficit)
	£	£	£	£
Social Housing Lettings (Note B)				
Other Social Housing Activities:				
First tranche low cost home ownership sales				
Charges for support services				
Other				
Activities other than Social Housing Activities				
Total				

Notes:

1. Material items of Social Housing Activity should be separately identified, in particular surpluses on the disposal of properties.

2. Where material sums are involved, additional analysis should be provided. This might, for example, distinguish between market rent, student accommodation or other significant areas of income such as surpluses on the disposal of property other than Social Housing.

Source: Accounting Direction 2015

Despite the absence of specific requirements in the Accounting Direction 2015 there were a number of instances within the Top 100 PRP financial statements where there was a detailed analysis of income from non-social housing activities.

Places for People recorded the highest total non-social housing income in the Top 100 with £480m (60%) of income compared to a total turnover of £795m. They provided analysis in both the notes to the financial statements and also highlighted key figures in the board report:

Notes to the financial statements

FOR THE YEAR ENDING 31 MARCH 2017

2. TURNOVER, COST OF SALES, OPERATING COSTS AND OPERATING PROFIT	Turnover £'000	Cost of sales £'000	Operating costs £'000	2017 Operating profit/(loss) £'000
Social housing lettings (note 3)	**285,032**	**–**	**(168,417)**	**116,615**
Other social housing activities				
Social housing property sales	**13,063**	**(9,404)**	**(1,270)**	**2,389**
Shared Ownership property sales	**5,360**	**(3,416)**	**(762)**	**1,182**
Charges for support services	**10,653**	**–**	**(9,213)**	**1,440**
Domiciliary care	**–**	**–**	**(5)**	**(5)**
Other	**279**	**–**	**(1,066)**	**(787)**
Total	**314,387**	**(12,820)**	**(180,733)**	**120,834**
Non social housing activities	**480,668**	**(217,906)**	**(224,904)**	**37,858**
Total	**795,055**	**(230,726)**	**(405,637)**	**158,692**

Analysis of turnover	2017 £'000	2016 £'000
Social housing turnover	**314,387**	292,631
Non social housing activities		
Non social housing development and construction	**234,192**	98,765
Non social housing lettings	**39,717**	35,804
Leisure facilities management	**136,512**	130,692
Property management services	**42,455**	44,800
Retirement management services	**2,160**	1,941
Other	**25,632**	11,951
Total	**795,055**	616,584

Source: Places for People

A number of other Top 100 PRPs provide a breakdown of other income with the corresponding expenditure within the notes of the financial statements.

There were also some Top 100 PRPs which did not provide a breakdown of non-social housing income, and where it is broken down, numerous categories are used making it difficult to aggregate this data for analysis. This may be due to the absence of specific disclosure requirements.

ForViva Group had one of the largest increases in non-social housing income from £1.1m in 2015/16 to £38.1m in 2016/17 but did not provide a breakdown of this income within the notes of the financial statements:

Non-regulated activities reporting

ForViva Group Consolidated Financial Statements
For the year ended 31st March 2017

Notes to the Financial Statements for the year ended 31st March 2017

3. Particulars of turnover, cost of sale and operating surplus

Group	Year Ended 31st March 2017				Year Ended 31st March 2016			
	Turnover	Cost Of Sales	Operating Expenditure	Operating Surplus	Turnover	Cost Of Sales	Operating Expenditure	Operating Surplus
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Social Housing Lettings	78,763	-	(54,785)	23,978	76,596	-	(59,178)	17,418
Other Social Housing Activities								
Lettings income and expenditure	2,037	(1,576)	-	461	93	(119)	-	(26)
Charges for Support Services	1,073	-	(934)	139	1,116	-	(294)	822
Other	313	-	(210)	103	3,641	-	116	3,757
	3,423	(1,576)	(1,144)	703	4,850	(119)	(178)	4,553
Activities Other than Social Housing	38,095	(28,944)	(11,442)	(2,291)	1,089	-	(671)	418
Total	120,281	(30,520)	(67,371)	22,390	82,535	(119)	(60,027)	22,389

Source: ForViva Group

As the current rent regime prescribes rent decreases until 2020, diversification into non-social housing activities is becoming more popular, with the Top 100 PRPs having a wide range of other income streams. However, open market sales are still the main source of other activities income within the Top 100 PRPs.

Swan Housing Association

Swan Housing Association has one of the largest proportions of income from non-social housing activities at £41m (40% of a total turnover), primarily from outright sales income. They make reference to outright sales income in the principal activities section of the board report:

'We also offer new build houses and apartments for sale in developments across East London and Essex and manage properties on behalf of other housing providers.'

There were numerous examples of Top 100 PRPs disclosing information about the social achievements of non-social housing income streams. Aspire Housing Limited provides information on the social return on assets in relation to training provided by one of their subsidiaries.

Social return on assets

The achievement of positive social impact is a core element of Aspire's corporate aims reinforced by our new Corporate Plan and associated strategies.

PM Training produced a profit before Gift Aid in 2016-17 of £534k, and £449k was donated via Gift Aid to our charitable arm, The Realise Foundation. Some of PM's headline achievements in 2016-17 are summarised below:

- 541 young people engaged in learning activities funded by the Education Funding Agency, and 61% of learners who have left the programme have progressed into employment, education or further training
- 45% of the young learners supported by PM Training, came from areas that are amongst the 25% most deprived nationally
- PM Training had 263 16-18 year old apprenticeship starts, the highest in its history, and there were 526 learners on the programme in the year, again the highest number recorded for PM Training
- A total of 915 learners were funded by engagement in adult apprenticeship provision, including 519 starts during the year
- PM Training provided c250 training and employment opportunities for young people through its Homeworks division, delivering a range of services to Aspire Housing and to Stoke on Trent City Council

Source: Aspire Housing Limited

A number of Top 100 PRPs also discussed within their VfM statement the importance of diversifying into new areas. One Housing Group provided an analysis of its return on assets by tenure which incorporated the lettings from non-social housing income:

Return on assets by tenure

	2017	2016
Social and supported homes	1.34%	1.87%
Shared ownership	3.26%	3.22%
Market rent	7.27%	4.09%
Commercial	11.22%	16.45%
Return on properties owned	**1.95%**	**2.30%**

Source: One Housing Group

Sanctuary detailed the main sources of their non-social housing income and provided an operational review for each category in their Value for Money statement. Below is an extract of their review of outright sales income:

Last year we set ourselves the task of selling 144 homes in England arising from the capital programmes, with proceeds of £20.6 million and a margin budget of £3.8 million. We surpassed this with 167 homes sold, sales proceeds reaching £24.1 million and a margin of £6.5 million, £2.7 million better than budget. All of the surpluses achieved on property sales are reinvested in the development of new homes.

In the year our in-house construction team started work on 12 sites as well as beginning construction of an office. Currently our construction team is on-site at 10% of all homes in development. This is expected to grow as our development programme increases. The construction team continues to provide training and employment opportunities on our construction sites and offers and provides the communities we work in with access to resources to support local projects - see pages 32 to 35 for more information.

Source: Sanctuary value for money statement

Non-regulated activities reporting

The split of income and expenditure between social housing lettings, other social housing activities and other activities for the 2016/17 financial statements for the Top 100 PRPs is as follows:

	Turnover		Operating expenditure and cost of sales		Surplus	Margin
	£bn	%	£bn	%	£bn	%
Social housing lettings	11.5	72.3%	8.1	72.2%	3.4	29.6%
Other social housing activities	2.0	12.8%	1.2	10.6%	0.8	40.0%
Other activities	2.4	14.9%	1.9	17.2%	0.5	20.8%
	15.9	100.0%	11.2	100.0%	4.7	29.6%

There are a number of variables within other activities which affect margin. For example items with a negative impact such as pension deficits with no corresponding income and impairment of land, but also positive impacts such as an increase in the fair value of investments.

We anticipate that the new Value for Money Standard will be rolled out in time for implementation into financial statements for the year ending March 2018.At the consultation stage it appeared the new Value for Money Standard was going to contain more explicit requirements for PRPs to consider:

regular and appropriate consideration by the board of potential value for money gains – this must include full consideration of costs and benefits of alternative commercial, organisational and delivery structures consideration of value for money across their whole business including their approach to investment in non-social housing activity – they should include whether this generates returns commensurate to the risk involved and justification where this is not the case

Therefore in the future we are expecting PRPs to disclose more fully the increasingly important non-social housing income streams.

Bonds, borrowings and derivatives

Key Points:

- **Reported borrowing facilities for the sector have risen by 4.5% in 2016/17 to £83.6bn.**
- **Bond issues and private placements contributed 54% of total new finance raised in 2016/17, compared to 34% in 2015/16.**

Borrowings

At 31 March 2017 the sector had total reported borrowing facilities of £83.6bn (2016: £80bn) of which 18% (2016: 18%) was undrawn. New facilities arranged in the year to March 2017 totalled £7.6bn (2016: £5.2bn).

The maturity profile of existing debt indicated that the immediate refinancing risk of the sector remained low. Long-term debt continues to account for the majority of the sector's borrowings, with 84% of debt being due for repayment in more than five years. The debt repayment profile shows limited refinancing risk to March 2019, with £4.4bn (6%) of debt repayable within two years (2016 £3.3bn, 5%), and £1.5bn reported to be due for repayment within 12 months.

Security is currently reported to be in place for £77.8bn of debt (2016: £77.6bn); this represents 93% of agreed facilities and 113% of drawn facilities, the same proportion as last year. At sector level, there appears to be sufficient security in place to cover the forecast drawdowns over the next 12 months.

The sector's exposure to interest rate fluctuations is mitigated through the use of fixed interest rates. £48.8bn (71%) of drawn debt is fixed for over one year (2016: £45.5bn, 69% of drawn debt). The analysis of the duration of fixed rates shows that 50% (2016: 50%) of total borrowing is at rates fixed for over 10 years. The use of long term fixes, through bonds, fixed rate bank debt or interest rate swaps continues to provide the sector with a degree of certainty on forecasting the costs of borrowing.

The total amount of debt reported as floating, fixed for less than a year or otherwise exposed to variations in cost through inflation linking or cancellable/callable options now amounts to £19.6 billion. This represents 29% of the total drawn debt (2016: £20.3bn, 31%).

The total amount of long term debt of the Top 100 PRPs is circa £59.3bn (2016: £56.5bn) of which 82% (2016:84%) is repayable more than 5 years from the year end and 3% (2016: 3%) is repayable within one year. 78% of the total borrowings of the Top 100 are through bank loans and mortgages.

Twelve PRPs have net debt exceeding one billion pounds as follows:

	2017	2016
	£m	£m
London & Quadrant	4,281	2,208
Clarion	3,170	2,090
Sanctuary	2,383	2,347
Places for People	2,358	1,868
Sovereign	1,594	1,540
Genesis	1,465	1,233
A2Dominion	1,414	1,328
Hyde Housing	1,311	1,233
Notting Hill	1,280	1,217
Peabody Trust	1,057	1,001
Guinness Partnership	1,189	1,078
Orbit	1,102	949

Bonds, borrowings and derivatives

Bonds
The sector as a whole appeared to remain financially strong with access to sufficient finance.

Over the year bond issues and private placements contributed 54% of total new finance raised (2016: 34%), which reflects that activity slowed following the July 2015 budget announcement, and there has been a rebalancing of funding sources as banks stepped in to provide the bulk of new funding from that point, mostly through five-year revolving credit facilities.

Places for People issued both a corporate bond of £400m to fund social housing activities and a £65m retail bond to fund non-social housing activities.

The One Housing Group bond was secured mostly against shared ownership homes, which are becoming increasingly attractive to investors as they remain outside the Government's rent regime.

We have also seen further diversity in sector funding post 31 March 2017 with the Japanese bank Mitsubishi UFJ Financial Group entering into a £50m private placement with Network Housing, its first with a PRP.

Some of the more significant capital market funding arranged during the year is summarised in the table below.
.

Issuer	Bonds / Private Placements	Credit rating	Date issued	Coupon	Term
	£m			%	years
L&Q	300	A1	April 2016	2.625	10
Places for People	400	A3	August 2016	2.875	10
A2Dominion	250	A+	November 2016	3.5	12
One Housing Group	85	Not disclosed	March 2017	1.985	25

Also of note, Government-guaranteed aggregator Affordable Housing Finance plc (AHF), issued further funding including a new £161m guaranteed bond in May 2016 priced at an all-in cost of funds of 2.61% for seven PRPs, and £125m long term bonds for eight PRPs in July 2016 priced at 1.983%.

PRS Finance, which is a government backed private rental sector funding aggregator, issued a £265m bond in November 2016 priced at an all-in cost of funds of 1.85%, with £90m retained for sale at a later date.

Impairment

Key points:

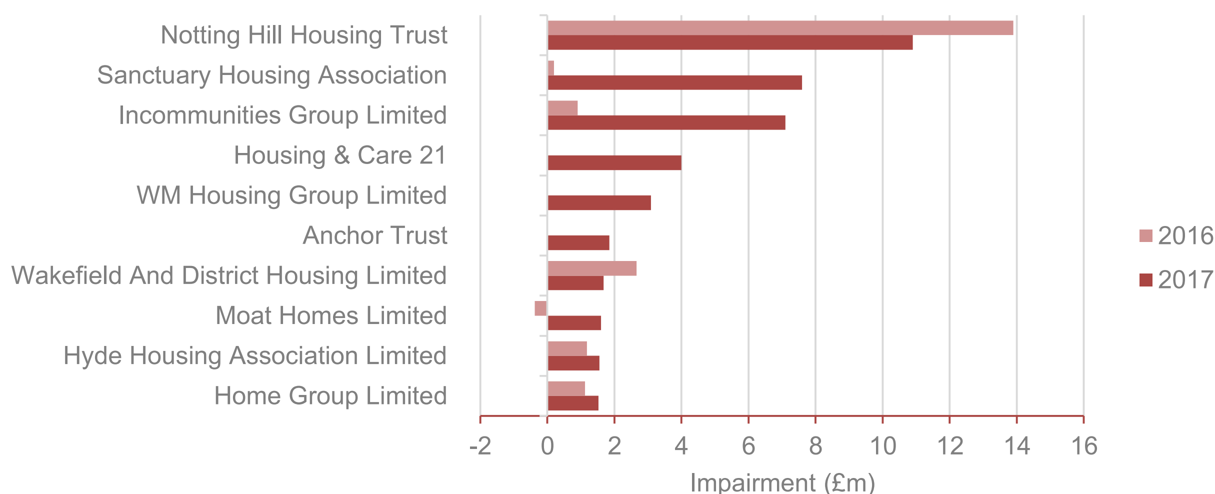
- **40 Private Registered Providers within the Top 100 reported an impairment loss on assets.**
- **Impairment losses were reported against both existing assets held and those under development. Changes in Government policy and the continuing impact of the rent decreases to be applied was a common explanation for impairment losses.**
- **Impairment remains an important issue in the sector and therefore increased narrative would assist the user of the financial statements in considering the impact of any impairment losses reported.**

Impairment

Chapter 14 of the Housing SORP 2014 and Section 27 of FRS 102 set out the factors for PRPs to consider in assessing indicators of impairment. As PRPs principally hold housing assets for social benefit and therefore their service potential, the measurement of impairment should be considered against those indicators detailed in the SORP. An impairment of housing assets is recognised where the carrying value of an asset or cash generating unit is higher than its recoverable amount. Recoverable amount is the higher of the asset or cash generating unit's value in use or its fair value less costs to sell. The value in use in this case is considered the present value of the future cash flows expected to be derived from the asset. The SORP also states that the depreciated replacement cost may be a suitable method for determining the value in use.

The Accounting Direction 2015 requires the impairment of housing properties to be disclosed within the note on the particulars of turnover and expenditure from Social Housing Lettings.

There were 40 PRPs within the Top 100 which reported an impairment loss in assets in their 2016/17 financial statements (2016: 44). Total impairment losses amounted to £62.5m an increase of 7.4% compared to impairment losses reported in the prior year. An analysis of the 10 PRPs with the highest reported impairment losses in the Top 100 is as follows:



All PRPs within the Top 100 which booked an impairment loss in the year provided additional narrative on the nature of the impairment to assist the reader of the financial statements in understanding the reasons behind it, though the quality of narrative differed considerably. There was a variety of reasons as to how these in the year. Impairment losses were reported both for existing housing properties in place as well as those under development. These included: the continuing impact of rent decreases following the change in Government policy, potential demolition of existing properties as well as development expenditure differing to set budget and occupancy levels.

Impairment

Notting Hill Housing Group which reported the highest impairment loss provided the following narrative in their financial statements:

Notting Hill Housing Group:
The Group assessed two development sites as impaired due to the combination of the 1% rent reduction for four years plus rising construction costs. A total of £10.9m was recognised. £7.3m to write down costs incurred to date, £0.4m in respect of investment properties and £3.2m as a provision to meet future obligations.

There were further impairments relating to development cost overruns. An example of this was Aster Group Limited who reported the following:

Aster Group:
Impairment relates to both a downward revaluation following the trigger of the Government decision to reduce rents by 1% for the next four years and a small number of schemes where expenditure exceeded the original approved budget for the scheme. This affected 207 units with a carrying value prior to impairment of £28 million.

Within the Key Accounting Estimates and Assumptions section in the Accounting Policies of Network Housing, figures were provided for a range of depreciated replacement cost values which it considered against the carrying values of assets held. The financial statements stated the following:

Network Housing:
In estimating DRC the Group assumed that the current build cost is between £2,443 and £3,105 per square metre depending on the property type. The estimates are based on the average cost of developing new properties. This cost per square metre was then multiplied by the square metres of each CGU and then depreciated by the life to date of the relevant CGU.

The DRC calculated is compared against the carrying cost less unamortised grants of the CGU. Where DRC is lower than the carrying amount is reduced to the DRC by charging an impairment loss to the Statement of Comprehensive income.

As a result of the impairment review 17 (2016: 280) units were impaired by £542k (2016: £2,656k).

Whilst interesting that this has been disclosed, there is no mention of how land is factored into these calculations.

As well as impairment losses charged to the Statement of Comprehensive Income by PRPs in the year, there were also credits reversing previous impairment losses totalling £7.9m reported in the year.

Stonewater Limited reported such a reversal of impairment loss in the year in their financial statements as follows:

Stonewater Limited:
A review of long term void properties was undertaken and no impairment was necessary. Following the review, the group has recognised a total impairment loss of £0.7m (2016: £1.0m) in respect of general needs completed properties and properties under construction. In addition £1.1m impairment was reversed during the year (2016: £0.9m). The impairment reversal related to 3 pieces of land that were previously impaired as no plans for development were in place. The properties have been sold during 2016/17.

We encourage narrative to be provided in the financial statements where an impairment has been recognised. We recommend that this is of sufficient detail to assist the reader of the financial statements in considering the implications of any recognised impairment.

Investment Properties

Key Points:

- **77 PRPs within the Top 100 reported an investment property portfolio in their financial statements.**
- **The reporting of the measurement of fair value differed in those PRPs with investment properties.**
- **There was inconsistency of reporting investment property valuation gains and losses within the Statement of Comprehensive Income.**

There were 77 PRPs in the year (2016: 75) which reported an investment property portfolio in their 2016/17 financial statements.

Investment properties are required to be measured at fair value at each reporting date in accordance with Section 16 of FRS 102. The total increase in fair value in investment property charged through the Statement of Comprehensive Income was £224.3m. The disclosure of the accounting policy for valuation of investment properties differed in the financial statements of the Top 100.

Places for People stated the following in their financial statements:

Places for People:
Private sector rented properties are shown in investment properties and were valued externally at the date of transition to FRS 102 (1 April) by a qualified RICS chartered surveyor. Valuations are re-assessed on an annual basis.

Commercial properties are shown in investment properties and valuations are completed by an experienced in-house team using detailed rental income stream and yield information.

Investment properties are held at fair value with changes in fair value recognised in the statement of comprehensive income.

Notting Hill Housing Group has provided detailed narrative as to how the valuation of investment properties has been arrived at:

Notting Hill Housing Group:
The market rent properties were valued at 31 March 2017 by Jones Lang LaSalle Limited, member of the Royal Institute of Chartered Surveyors. The properties were valued at open market value subject to tenancies. The properties were valued on a discounted cash flow basis over a 10-year holding period, with a reversion in the final year to net income capitalised into perpetuity by an exit yield between 4.75% and 5.5% dependent on the scheme. The discount rate used is 8%.

The financial statements include commercial properties at open market value with vacant possession. These were valued by Dunphys Ltd, Savills, Jones Lang LaSalle, Tuckerman Chartered Surveyors, and Currell Chartered Surveyors. All valuers are members of the Royal Institute of Chartered Surveyors at 31 March 2017.

There is an inconsistency in the reporting of investment property movements in the financial statements of PRPs within the Top 100. Metropolitan Housing for example reported its movement in investment property valuation after operating surplus between the operating surplus and the surplus before tax lines on the Statement of Comprehensive Income as follows:

Investment Properties

	Note	Group 2017 £'000	Restated Group 2016 £'000	Trust 2017 £'000	Restated Trust 2016 £'000
Turnover	2	265,689	238,446	258,049	229,615
Cost of sales	2	(25,912)	(8,525)	(23,403)	(8,472)
Operating costs	2	**(143,517)**	**(136,270)**	**(138,896)**	**(129,451)**
Adjusted operating surplus	2,3 & 5	**96,260**	**93,651**	**95,750**	**91,692**
Remeasurement - amendments to the pension contribution schedule	24	-	(9,433)	-	(9,433)
Total operating costs		**(143,517)**	**(145,703)**	**(138,896)**	**(138,884)**
Operating surplus		**96,260**	**84,218**	**95,750**	**82,259**
Surplus on disposal of fixed assets	6	16,912	23,640	17,062	22,011
Surplus on disposal of fixed asset investments	6	8,721	9,498	8,721	9,498
Surplus/(deficit) on disposal of other investments		-	(257)	-	(257)
Revaluation of investments	35	1,856	(593)	1,856	(593)
Share of operating surplus in joint ventures	32	3,784	3,395	-	-
Interest receivable	7	1,456	3,215	2,733	3,384
Interest and finance costs	8	(48,459)	(52,276)	(44,758)	(46,767)
Movement in fair value of financial instruments	7	(1,557)	180	(1,557)	180
Movement in fair value of investment property	12	686	480	686	480
Surplus before tax		**79,659**	**71,500**	**80,493**	**70,195**
Taxation	11	(8)	(52)	-	(52)
Surplus for the year		**79,651**	**71,448**	**80,493**	**70,143**
Actuarial (loss)/gain on defined benefit pension scheme	24	(1,357)	320	(1,357)	320
Change in fair value of hedged financial instruments	8	(2,731)	(3,561)	(2,731)	(3,561)
Total comprehensive income and expenditure for the year		**75,563**	**68,207**	**76,405**	**66,902**

Bromford Housing Group however reported the increase in investment property valuation on the face of the Statement of Comprehensive Income above operating surplus as follows:

Statement of Comprehensive Income - Group and Association

For the Year Ended 31 March 2017

	Notes	Group		Association	
			Restated		
		2017	2016	2017	2016
		£'000	£'000	£'000	£'000
Turnover	2	167,241	170,169	13,432	13,240
Cost of sales	2	(11,442)	(11,023)	-	-
Operating costs	2	(88,824)	(90,306)	(12,982)	(12,424)
Gain on disposal of property, plant and equipment (fixed assets)	2, 35	8,194	6,990	-	-
Increase in valuation of investment properties	2, 13	947	121	-	-
Operating surplus	2	76,116	75,951	450	816
Interest receivable	6	512	531	-	-
Interest and financing costs	7	(26,381)	(27,037)	-	(68)
Movement in fair value of financial instruments	34	(446)	(347)	-	-
Movement in fair value of investments	20	(40)	(184)	-	-
Surplus before tax	5	49,761	48,914	450	748
Taxation	10	(97)	(248)	(106)	(237)
Surplus for the year after tax		49,664	48,666	344	511
Actuarial (loss)/ gain relating to pension scheme	38	(380)	4,334	-	-
Total comprehensive income for the year		49,284	53,000	344	511

A reason behind the inconsistency is that neither the example Statement of Comprehensive Income provided in the SORP nor the Accounting Direction details exactly where the movement on investment be disclosed.

Similarly, FRS 102 only states that changes in fair value are recognised in profit or loss at each reporting date.

The total carrying value of assets classified as investment properties as a proportion to total housing assets was 3.45% in 2016/17. Although this is currently a small proportion, it is becoming increasingly significant as PRPs diversify their portfolio and so consistency of reporting would improve the quality of information across the sector.

Financial Instruments

Key Points:

- **51 Private Registered Providers within the Top 100 reported 'other' financial instruments in their financial statements.**
- **There continues to be a variation in the accounting standards adopted by Private Registered Providers with the recognition and measurement requirements of FRS 102 Section 12, IFRS 9 and IAS 39 all adopted.**
- **Disclosure of financial instruments continues to vary considerably across the Top 100 PRPs.**

51 Private Registered Providers within the Top 100 reported 'other' financial instruments in accordance with Section 12 of FRS 102 in 2017 in comparison to 50 PRPs in 2016. The addition is Fortis Living which two forward fix derivatives in the year which were measured at fair value in the financial statements at the 31 March 2017 year end.

The movement in value of other financial instruments recognised in the Statement of Comprehensive Income was an overall credit of £16.8m across the Top 100 PRPs.

The disclosure of financial instruments continues to be varied across the Top 100 PRPs. A transparent example of disclosure of financial instruments held was Orbit Group Limited who reported the following:

Hedge Accounting (Group)

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102.29(a) for the cash flow hedge accounting models in Group not in Association.

	2017					
	Carrying amount £'000	**Expected cash flows £'000**	**1 year or less £'000**	**1 to < 2 years £'000**	**2 to < 5 years £'000**	**5 years and over £'000**
Interest rate swaps:						
Assets	-	44,810	1,107	1,424	6,561	35,718
Liabilities	65,919	(143,964)	(10,359)	(10,358)	(30,188)	(93,059)
	65,919	(99,154)	(9,252)	(8,934)	(23,627)	(57,341)

	2016					
	Carrying amount £'000	**Expected cash flows £'000**	**1 year or less £'000**	**1 to < 2 years £'000**	**2 to < 5 years £'000**	**5 years and over £'000**
Interest rate swaps:						
Assets	-	62,705	1,813	2,060	8,785	50,047
Liabilities	62,108	(154,381)	(10,414)	(10,359)	(30,724)	(102,884)
	62,108	(91,676)	(8,601)	(8,299)	(21,939)	(52,837)

24. Housing loans and bond finance (continued)

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to affect profit or loss:

	2017					
	Carrying amount £'000	Expected cash flows £'000	1 year or less £'000	1 to < 2 years £'000	2 to < 5 years £'000	5 years and over £'000
Interest rate swaps:						
Assets	-	11,265	167	236	1,072	9,790
Liabilities	50,904	(35,980)	(1,816)	(1,818)	(5,463)	(26,883)
	50,904	(24,715)	(1,649)	(1,582)	(4,391)	(17,093)

	2016					
	Carrying amount £'000	Expected cash flows £'000	1 year or less £'000	1 to < 2 years £'000	2 to < 5 years £'000	5 years and over £'000
Interest rate swaps:						
Assets	-	15,096	286	325	1,410	13,075
Liabilities	48,456	(37,806)	(1,824)	(1,818)	(5,458)	(28,706)
	48,456	(22,710)	(1,538)	(1,493)	(4,048)	(15,631)

Fair values

The fair values of all financial assets and financial liabilities by category together with their carrying amounts shown in the statement of financial position are as follows:

	2017		2016	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Loan	462,775	735,341	451,975	670,581
Bond	95,000	112,882	95,000	110,046
Embedded swap	240,625	100,801	250,625	96,510
	798,400	**949,024**	**797,600**	**877,137**

Orbit Treasury Limited has thirty cash flow hedges. The hedge relationships of twenty five meets each condition for hedge accounting, which are consistent with the entity's risk management objectives for undertaking hedges. The remaining five cash flow hedges do not meet the conditions of hedge accounting due to having callable options in the swap contract from the banks.

Orbit Treasury Limited considers that an economic relationship exists between the hedging instrument (interest rate swap) and the hedged item (floating rate loan) in that the values of the hedged item and hedging instrument move in opposite directions in response to movements in LIBOR, the hedged risk, over the life of the hedge.

The objective of the hedge is to mitigate the changes in the future cash flows stemming from the floating rate interest payments related to the floating rate loan entered into by Orbit Treasury Limited.

24. Housing loans and bond finance (continued)

In accordance with chapter 12 of FRS 102, hedge accounting has been applied to the following swap contracts.

	2017 £000	2016 £000
Barclays £5m 4.96% 31 January 2020	598	761
Barclays £5m 5.06% 14 April 2023	1,215	1,313
Barclays £5m 4.24% 14 April 2023	1,269	1,287
Barclays £10m 4.7% 26 April 2025	2,818	2,877
Barclays £5m 4.43% 14 April 2028	1,660	1,616
Barclays £5m 4.28% 13 June 2025	1,260	1,270
Barclays £5m 3.78% 14 April 2030	1,540	1,454
Barclays £10m 4.665% 01 July 2034	5,053	4,803
Barclays £5m 4.085% 12 February 2037	2,371	2,218
Barclays £10m 4.238% 31 October 2031	3,946	3,765
Barclays £15m 4.0425% 15 April 2033	5,944	5,609
Lloyds £10m 4.81% 03 April 2028	3,709	3,649
Lloyds £5m 4.865% 12 November 2029	2,091	2,040
Lloyds £20m 3.955% 30 March 2037	9,070	8,448
Lloyds £10m 3.89% 30 November 2037	4,544	4,214
Lloyds £20m 2.735% 30 November 2031	4,051	3,581
Lloyds £30m 2.78% 28 November 2031	6,259	5,560
Lloyds £10m 4.24% 04 April 2022	1,720	1,912
Lloyds £10m 4.229% 31 October 2031	3,934	3,753
Lloyds £10m 4.761% 07 July 2038	6,273	5,951
Lloyds £10m 4.946% 07 July 2038	6,616	6,299
RBS £15m 2.0675% 13 May 2020	631	689
RBS £25m 2.4875% 13 May 2022	2,041	2,060
Dexia £9m 4.775% 01 April 2030	3,758	3,647
Dexia £10m 3.975% 30 March 2037	4,571	4,260
	86,942	**83,036**

PRPs continue to adopt a mixture of the provisions of:

- Both Section 11 and Section 12 in full;
- The recognition and measurement provisions of IAS 39 and the disclosure and presentation requirements of Sections 11 and 12; or
- The recognition and measurement provisions of IFRS 9 Financial Instruments and/or IAS 39 and the disclosure and presentation requirements of Sections 11 and 12,

All of these are an accounting policy choice within FRS 102.

Pensions

Key Points:

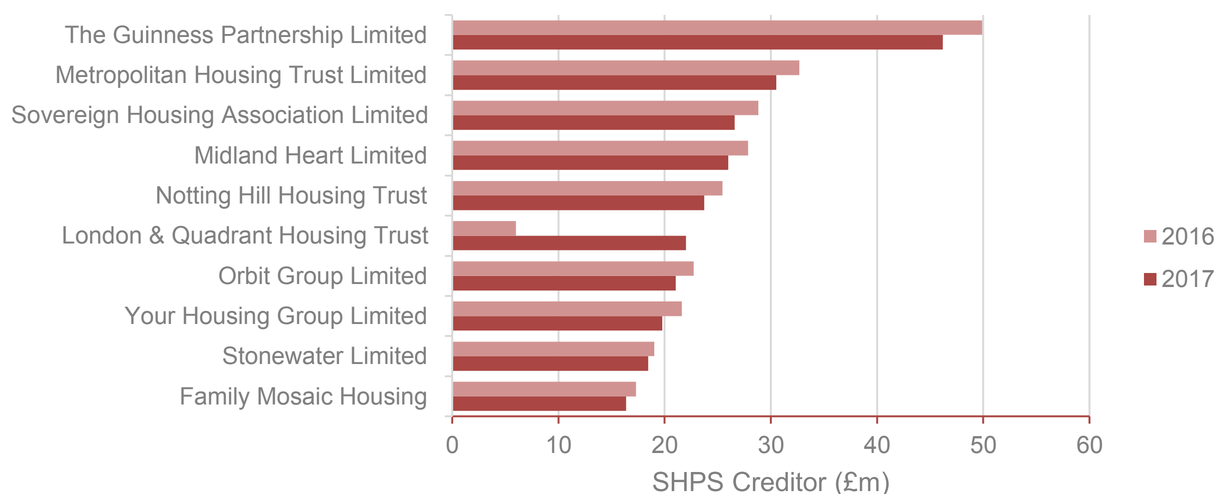
- **69 Private Registered Providers within the Top 100 reported Social Housing Pension Scheme pension creditors in their financial statements.**
- **The overall value of Social Housing Pension Scheme creditors have decreased across the Top 100 PRPs as contributions have exceeded re-measurements in the year.**

FRS 102 and the Housing SORP 2014 introduced a change in the accounting treatment of contractual arrangements in place to meet a past service deficit on multi-employer plans. Where there is such an agreement in place, an entity must recognise a liability in the Statement of Financial Position for the contributions payable that arise from the agreement, and the resulting expense in the Statement of Comprehensive Income in accordance with paragraphs 28.13 and 28.13A of FRS 102.

The defined benefit Social Housing Pension Scheme (SHPS) is such a plan and therefore PRPs are required to recognise a creditor for any contractual arrangements in place.

There are 69 (2016: 70) PRPs within the Top 100 reporting a SHPS creditor in the financial statements. The reported carrying value of the SHPS contractual liability across the Top 100 PRPs is £597m (2016: £620m). Overall contributions to meet these contractual arrangements across the Top 100 have exceeded any remeasurements of the creditor balance in the year.

The largest SHPS liabilities reported by the Top 100 PRPs are as follows:



Pensions

An example of the decrease in SHPS creditor as a result of contributions made can be seen in the financial statements of Longhurst Group:

SHPS deficit payment agreement

In calculating the net present value of the liability included within provisions the association has used a discount rate based on a market rate AA corporate bond for the same period as the contractual obligations.

	Group		Parent Company	
	£'000	£'000	£'000	£'000
At start of the year	**13,183**	10,061	**2,145**	1,748
Re-measurements in the year	**351**	4,072	**52**	577
Interest for the year	**254**	183	**41**	32
Released to expenditure in the year	**(1,557)**	(1,133)	**(275)**	(212)
	12,231	13,183	**1,963**	2,145

The L&Q Group recorded a significant increase in the reported SHPS creditor in the year due to its merger with East Thames Group. This was disclosed in L&Q Group's financial statements as follows:

b) Social Housing Pension Schemes

	Group 2017 £m	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Reconciliation of opening and closing provisions				
Present value provision at start of the year	**6**	4	**6**	4
SHPS arising on acquisition	**16**	-	**-**	-
Unwinding of the discount factor (interest expense)	**-**	-	**-**	-
Deficit contribution paid	**(1)**	-	**(1)**	-
Remeasurements (change in assumptions / amendments to contribution schedule)	**1**	2	**1**	2
Present value provision at end of year	**22**	6	**6**	6

Total pension contributions across the Top 100 including any defined contribution and local government pension schemes amounted to £215m (2016: £299m). The SHPS treatment is expected to change in 2019 with a move to defined benefit pension scheme accounting treatment.

The prospect of a change in the way SHPS is accounted for was raised at the National Housing Federation Conference in March 2017. As a result the Housing SORP working party and the Pensions Trust have been working to determine whether it will be possible to derive sufficient information for each scheme member to account for their share of SHPS assets and liabilities as a defined benefit scheme. This will result in information on the performance of the SHPS scheme being available on an annual basis. The current implementation timetable is expected to be for financial years ending on or after 31 March 2019.

Prior Period Adjustments

Key Points:

- **Our review identified 36 Registered Providers in the Top 100 reporting prior period adjustments in 2016/17.**
- **9 Registered Providers reported prior period adjustments which impacted on prior year reserves.**

Prior Period Adjustments

Prior period adjustments were applied in the 2015/16 financial statements of the Top 100 Registered Providers upon the introduction of FRS 102 and the revised SORP. The transition date for the majority of PRPs was 1 April 2014. Surprisingly there have been a further 36 PRPs within the Top 100 which have reported adjustments in their 2016/17 financial statements. Prior period adjustments are required where in accounting policy is adopted or where a material prior period error has been made (Section 10 of FRS 102).

27 PRPs reported prior period adjustments which had no impact on the prior year reserve balance or carrying value of assets and were disclosed only. Such adjustments included changes in employee information, accommodation in management unit numbers and directors' emoluments. An example of this was Family Mosaic who restated their comparative information for accommodation in management and stated the following in their financial statements:

12 ACCOMMODATION IN MANAGEMENT

	GROUP		ASSOCIATION	
	2017	2016 Restated	2017	2016
General needs	17,386	17,053	15,710	15,376
Affordable housing	886	735	886	735
Supported housing	2,423	2,488	2,423	2,488
Shared ownership	2,404	2,269	2,376	2,242
Temporary accommodation	104	104	104	104
Leasehold units	1,784	1,505	1,611	1,334
Total units owned and managed	**24,987**	**24,154**	**23,110**	**22,279**
Units managed and not owned	318	724	318	723
Total units in management	**25,305**	**24,878**	**23,428**	**23,002**
Units owned managed by others	533	511	1,256	1,234
Total	**25,838**	**25,389**	**24,684**	**24,236**

A review of our housing system revealed that around 1,800 units were misclassified as shared ownership when they should have been classified as leaseholder units. This was corrected in the year.

Prior Period Adjustments

9 PRPs reported prior period adjustments which had an impact on their opening reserves. The largest adjustment made to opening reserves was reported by Metropolitan Housing Trust Limited which stated the following in their financial statements:

33. Prior year adjustments

A review of our accounting policies was carried out during 2016/17 and this has resulted in government grant on shared ownership properties being amortised over a useful economic life of 25 years. This grant had not previously been amortised.

This change has been accounted for as a prior year adjustment to our figures.

The tables below show the restatement resulting from the change.

	Group	Trust
Statement of Financial Position	**£'000**	**£'000**
Reserves at 31 March 2015	1,458,580	1,448,818
Adjust for amortised grant	39,844	39,748
Restated reserves at 31 March 2015	**1,498,424**	**1,488,566**

Statement of Comprehensive Income	**£'000**	**£'000**
Operating surplus 2015/16	80,669	78,800
Adjust for amortised grant	3,549	3,459
Restated operating surplus 2015/16	**84,218**	**82,259**

Glossary

Term	Definition
Accounting Direction for Private Registered Providers of Social Housing 2015	A document issued by the HCA under powers delegated to it by sections 127 and 177(4) of the Housing and Regeneration Act 2014, giving directions to PRPs about the preparation of their financial statements.
Amortisation	An accounting term, referring to the process of allocating the cost of an intangible asset over time.
Depreciation	An accounting term, referring to the process of allocating the cost of a tangible asset or liability over time.
Derivative	A financial instrument with a price that is dependent on or derived from one or more underlying assets, such as interest rate swaps.
Fair value	The amount for which an asset could be exchanged, a liability settled or an equity instrument could be exchanged, between knowledgeable and willing parties in an arm's length transaction.
Financial instrument	A contract the gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
First tranche disposal	The initial portion of a shared ownership property sold to the lessee.
Fixed assets	Assets of an entity which are intended for use on a continuing basis in the entity's activities.
Governance and Financial Viability Standard	A Standard issued in April 2015 by the HCA, setting out requirements in relation to governance and financial viability.
HCA (Homes and Communities Agency)	A non-departmental public body that funds new affordable housing in England. It also acts as the Regulator of social housing in England.
Housing Statement of Recommended Practice 2014	The Housing SORP's aim is narrow areas of difference of accounting within the social housing sector by recommending preferred accounting treatments and providing guidance in applying UK GAAP. The Housing SORP applies to all registered social housing providers.
Impairment	The amount by which the carrying value of an asset exceeds its recoverable amount.
Multi-employer pension plans	Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that: a) Pool the assets contributed by various entities that are not under common control, and b) Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.
NHF (National Housing Federation)	A trade body, representing providers of affordable housing in England.
NPV (Net Present Value)	A current estimate of the present discounted value of the future net cash flows in the normal course of business.
Recoverable amount	The higher of an asset's fair value less costs to sell and its value in use.
PRP (Private Registered Provider)	A social landlord that is recorded in the register maintained by the HCA under the Housing Act 1996.

Glossary

Term	Definition
Regulatory Judgement	Regulatory judgements are the HCAs official view of a provider. PRPs are assessed on governance and viability and rated on a scale of one to four.
Regulatory Notice	Brief reports issued by the HCA. Consumer standards regulatory notices are published when the HCA judges that a PRP has breached consumer standards and there is actual or potential serious harm to tenants.
Shared Ownership	Housing schemes where the social landlord has granted a shared ownership lease as defined in s622 of the Housing Act 1985.
SHPS (Social Housing Pension Scheme)	A multi-employee defined benefit pension scheme.
Strategic Report	A report that helps stakeholders assess the performance of a business, providing a balanced and neutral assessment of the development and performance of the business during the year and setting out its future plans, including risks and uncertainties to be faced.
The Code	A code of governance issued by the NHF.
Top 100	The 100 largest Private Registered Providers in England by unit numbers.

Appendix 1 – Regulatory Judgments

HCA Regulatory Judgments

Key themes:

- Increased reliance on non-social housing income.
- Tight covenants, particularly where business plans are reliant on asset sales and meeting challenging efficiency savings to ensure covenants are met.
- Inadequate stress testing.
- Inaccuracies in HCA returns.
- Lack of judgement, scrutiny and challenge by the Board.
- Board not having relevant experience in the sector/ awareness of risks.
- Ineffective scrutiny of subsidiary data at group level.

15 November 2017
County Durham Housing Group Limited G1 V2 – Governance upgrade CDHG has strengthened its control framework and eliminated elements of duplication and inefficiency. It is now better placed to adequately control organisational activity and support the delivery of its aims
GreenSquare Group Limited G1 V2 – Viability regrade GreenSquare's debt burden, relative to the size of its social housing lettings operation, is forecast to increase in order to fund the expanded programme. GreenSquare's projections of future performance show that its financial capacity will reduce as a result and it can now deal with relatively less downside risk. Projections include an increased exposure to sales risk as market sales are now a major element of GreenSquare's business plan. Sales represent a high proportion of its overall business activity compared with other providers.
Hyde Housing Association Limited G1 V2 – Viability regrade As a consequence of a large and diverse development programme, Hyde is facing a range of risks and increased exposure to sales. Hyde's financial forecast demonstrates a material financing requirement. It is currently in the process of re-structuring its loan portfolio which is expected to bring long term benefits and reduce treasury management risk. In 2018, however, this change results in one-off charges that it is not able to meet from the surplus on its in-year operating activities.
Peabody Trust G1 V2 – Viability regrade As a consequence of a larger and more diverse development programme, Peabody is facing a range of risks and increased exposure to sales. In accordance with its vision and social purpose, it plans to deliver significant re-generation of Thamesmead, as part of delivering 2,500 new homes annually from 2022. Its expanded development program will meet the needs of its stakeholders in areas of significant demand in the Thames Gateway and inner London boroughs. These pressures will continue over the next five years as Peabody enters into contracts to deliver this additional housing for rent and for sale, supported by grant, loans and cash generated within the business. Peabody's stress testing of its business plan has demonstrated that it has the financial capacity to deal with a reasonable range of exposures. It needs to manage the material risks relating to the scale and complexity of the Thamesmead regeneration, sales performance and potential for further opportunities to integrate and consolidate the group to ensure continued compliance. We are satisfied that Peabody has appropriate controls and mitigations in place to manage the material risks identified.
Together Housing Group Limited G1 V1 – Governance upgrade Since December 2016, THG has reduced the risks stemming from inaccurate or untimely financial reporting by strengthening the capacity of the finance team, simplifying its structure and introducing new systems and controls. The 2016/17 AML showed that previous recommendations had been successfully implemented and that no new material issues had arisen during the audit.

Appendix 1 – Regulatory Judgments

The Wrekin Housing Group Limited G2 V2 – Viability regrade Based on its projections of future performance, WHG's financial profile indicates it can deal with relatively less downside risk than most providers. Its current debt burden, relative to the size of its social housing lettings operation, is relatively high, and is forecast to increase significantly to fund a large development programme. This will further reduce WHG's financial capacity. In addition, under its current arrangements for annual business plan approval, WHG must comply with a financial covenant that provides a relatively low level of forecast headroom.	
25 October 2017	
Your Housing Group Limited G1 V1 – Governance Upgrade Since May 2015, YHG has communicated with the regulator in an open and timely manner and has completed work to consolidate and embed changes to its risk and internal controls framework. Based on evidence gained from an IDA, the regulator now has assurance that YHG meets the governance requirements set out in the standard.	
Gentoo Group Limited G3 V2 – Governance downgrade The board has failed to ensure adequate control and scrutiny in discharging its responsibilities. It has lacked effective oversight and an appreciation of risk in discharging its responsibilities in line with its own governing documents and scheme of delegation. It has failed to ensure that governance arrangements were operating at the most basic level. The regulator considers that there are significant weaknesses in the group's risk management and internal control assurance frameworks, including probity arrangements, which need addressing to ensure compliance with regulatory standards.	
WM Housing Group Limited G2 V1 – Governance downgrade Needs to improve some aspects of its governance arrangements to support continued compliance. Improvements are required to WM's control framework to ensure that key controls relating to higher risk activities are operating as intended. WM reported to the regulator that it had identified a breach of the Tenancy Standard in one of its temporary accommodation schemes. WM had failed to ensure that the implementation of its eviction processes provided licensees at this scheme with the level of protection required by law. We concluded that the breach had put the affected tenants at risk of serious detriment and therefore published a regulatory notice.	
27 September 2017	
Network Homes Limited G1 V2 – Viability regrade The provider meets our viability requirements. It has the financial capacity to deal with a reasonable range of adverse scenarios but needs to manage material risks to ensure continued compliance.	
30 August 2017	
Aldwyck Housing Group Limited G1 V2 – Governance upgrade Governance upgrade following September 2016 publication detailing the need for improvements to consolidate and embed changes to its risk and internal controls framework and to the board's oversight of risk.	
26 July 2017	
Catalyst Housing Limited G1 V1 – Governance upgrade In September 2016 Catalyst notified the regulator that it had identified some staff misconduct and financial impropriety in its market sales business stream, particularly relating to the procurement of services and fittings and sales to connected parties. The regulator has assurance that Catalyst's governance arrangements now enable it to adequately control the organisation and to continue meeting its objectives.	

Appendix 1 – Regulatory Judgments

28 June 2017

Curo Group (Albion) Limited G1 V1 – Governance upgrade
Governance upgrade. Downgraded to G2 in May 2016 due to a lack of assurance around the effectiveness of its governance arrangements. The regulator now has assurance that improvements have been implemented and that, as a result, the board is providing effective control and leadership of the business.

Rochdale Boroughwide Housing Limited G1 V2 – Governance upgrade and changed basis for viability grade
The regulator now has adequate assurance that RBH's management of gas safety risks has been strengthened.

31 May 2017

Chelmer Housing Partnership Limited G2 V1 – Governance downgrade
Not all CHP Board members are recruited and assessed on a skills basis, aligned to the needs of the business and its skills profile. It needs to improve the quality of risk reporting to ensure that there is a clear narrative on changes to risks which enables the board to gain assurance that appropriate controls and actions are in place.

26 April 2017

Shoreline Housing Partnership Limited G2 V2 – Governance downgrade
As a result of a decision to explore a potential merger with another registered provider, SHP's executive is operating with reduced capacity.SHP's stress testing is not sufficiently detailed and robust and that it cannot demonstrate that it has put appropriate mitigation strategies in place.
Material inaccuracies in rents data supplied by SHP in its Statistical Data Return were also identified.

25 January 2017

Magna Housing Group Limited G1 V1 – Governance upgrade
Since February 2016 Magna has developed, consulted on and launched a new five year strategy, setting out how it will deliver its mission of 'helping people to meet their housing needs'. Magna's board has demonstrated through its approach to developing the new strategy and reviewing how the organisation maximises its resources, that it robustly considers, challenges and debates key issues in order to ensure it has an effective strategic framework in place to facilitate delivery against its purposes and objectives.

21 December 2016

Together Housing G2 V1 – Governance downgrade
The annual stability check concluded that there was not adequate assurance that THG has effective systems in place to monitor and accurately report delivery of its plans.
Three successive annual reports from the group's external auditors have raised concerns about the capacity of the group's finance function to undertake the financial work required for a group of THG's size and complexity.

30 November 2016

Wrekin Housing Group Limited G2 V1 - Governance downgrade
WHG could not demonstrate that effective arrangements are in place to ensure appropriate oversight of key risks within the context of a cohesive group strategy.
WHG cannot demonstrate that the group meets the Value for Money (VfM) standard.

27 July 2016

One Housing Group Limited G2 V2 – Governance downgrade
Inconsistencies and gaps in documenting agreed governance arrangements and risk that the board cannot provide assurance that it is complying with its own governing documents.

Appendix 1 – Regulatory Judgments

Regulatory rating system:

G1 The provider meets the requirements on governance set out in the Governance and Financial Viability standard.

G2 The provider meets the requirements on governance set out in the Governance and Financial Viability standard, but needs to improve some aspects of its governance arrangements to support continued compliance.

G3 The provider does not meet all of the requirements on governance set out in the Governance and Financial Viability standard. There are issues of regulatory concern and in agreement with the regulator the provider is working to improve its position.

G4 The provider does not meet the requirements on governance set out in the Governance and Financial Viability standard. There are issues of serious regulatory concern and the provider is subject to regulatory intervention or enforcement action.

V1 The provider meets the requirements on viability set out in the Governance and Financial Viability standard and has the capacity to mitigate its exposures effectively.

V2 The provider meets the requirements on viability set out in the Governance and Financial Viability standard but needs to manage material financial exposures to support continued compliance.

V3 The provider's financial viability is of concern and in agreement with the regulator it is working to improve its position.

V4 The provider's financial viability is of serious concern and it is subject to regulatory intervention or enforcement action.

Formed more than 100 years ago, accountants and business advisors Beever and Struthers has a strong not-for-profit reputation based on the provision of high quality, tailored services to the UK social housing sector. The firm is one of the UK's leading independent accountancy practices with offices in Manchester, London and Blackburn.

Among its core strengths is a substantial not-for-profit division that ranks among the Top 5 providers of audit and assurance services with many of the leading UK Private Registered Providers amongst its clients.

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If you need any advice or assistance please contact us at any of the addresses below:

Manchester
St George's House
215-219 Chester Road
Manchester
M15 4JE

e: manchester@beeverstruthers.co.uk

London
15 Bunhill Row
London
EC1Y 8LP

e: london@beeverstruthers.co.uk

Blackburn
Central Buildings
Richmond Terrace
Blackburn
BB1 7AP

e: blackburn@beeverstruthers.co.uk

www.beeverstruthers.co.uk

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