Update from the Regulator

Acuity Conference 2023

Will Perry

April 23

Agenda

- Developing consumer regulation

- Sector risk

- RSH priorities and expectations

Developing consumer regulation

Consumer regulation

Revised standards

- Evolution and rationalisation
- Meet White Paperexpectations
- Stock quality
- Understanding and responding to tenants

TSMs

- First year of data collection 2023-24
- Smaller provider submission pilot

Inspections

- Scheduled (larger providers only) and responsive
- Build on IDA/current referral model
- Reporting

Powers

- SD test removed
- Property/service inspections
- Performance improvement plans
- Fines
- Repairs

Also: Awaab's Law, ATIS, DHS…

For smaller providers

- Think regulation, not consumer regulation

- Co-regulation continues

- All Standards apply and full range of powers available

- RSH engagement largely responsive – but can potentially inspect and act on information received

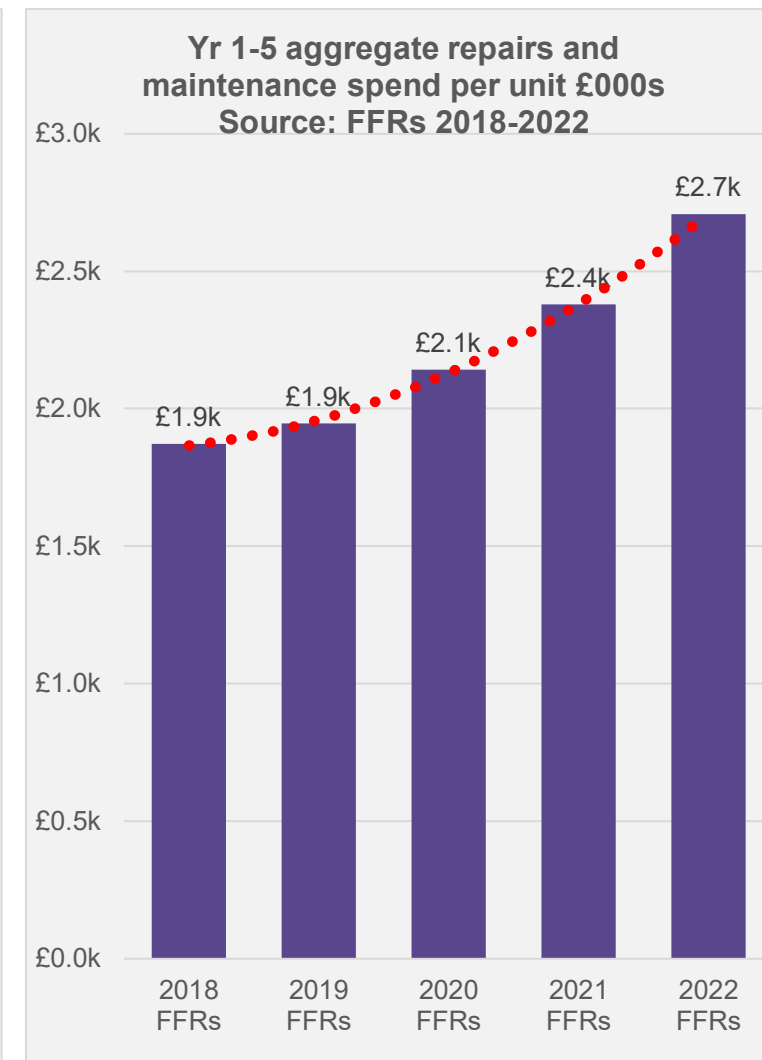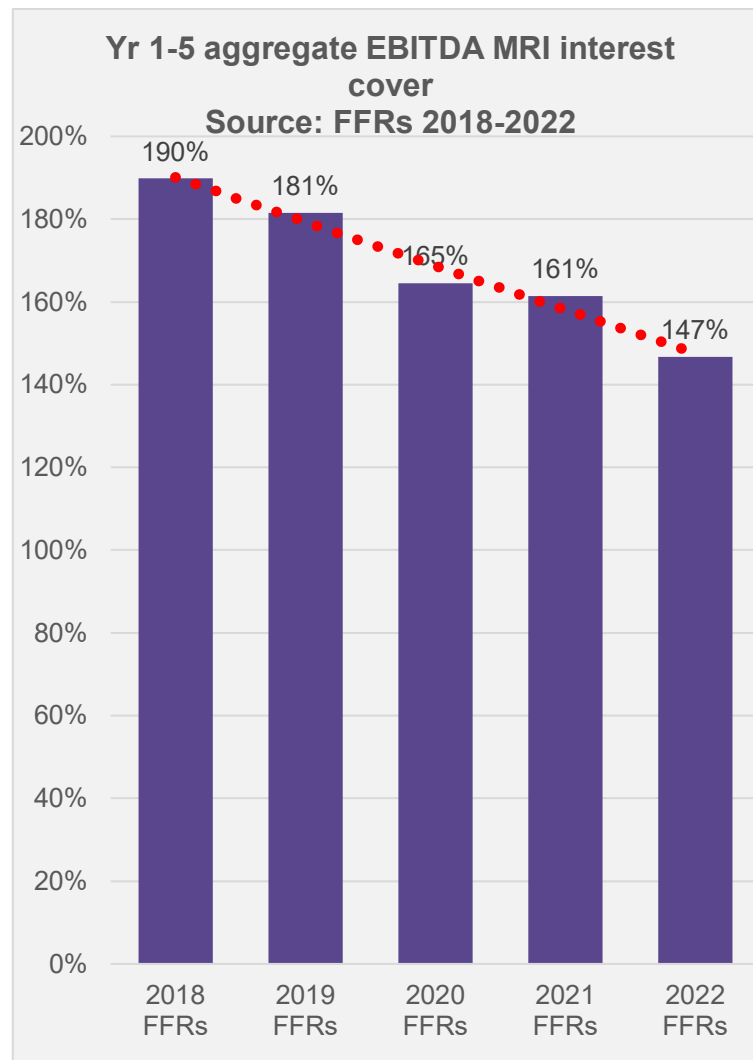- TSM pilot – could lead to submissions and follow-up
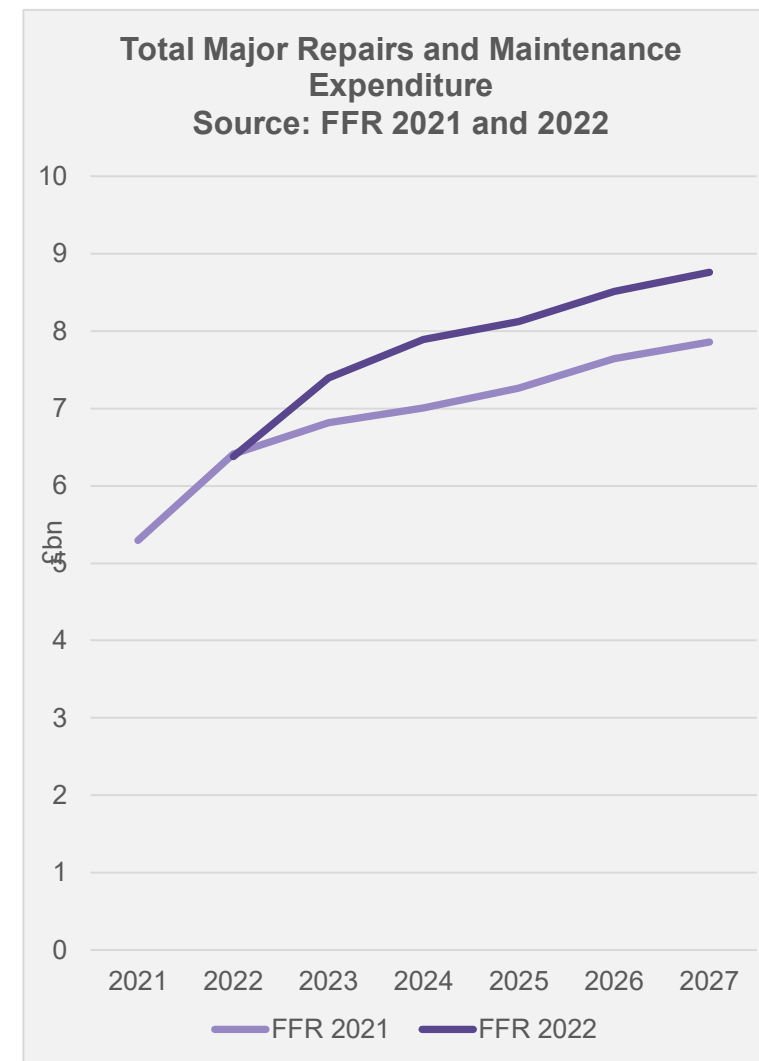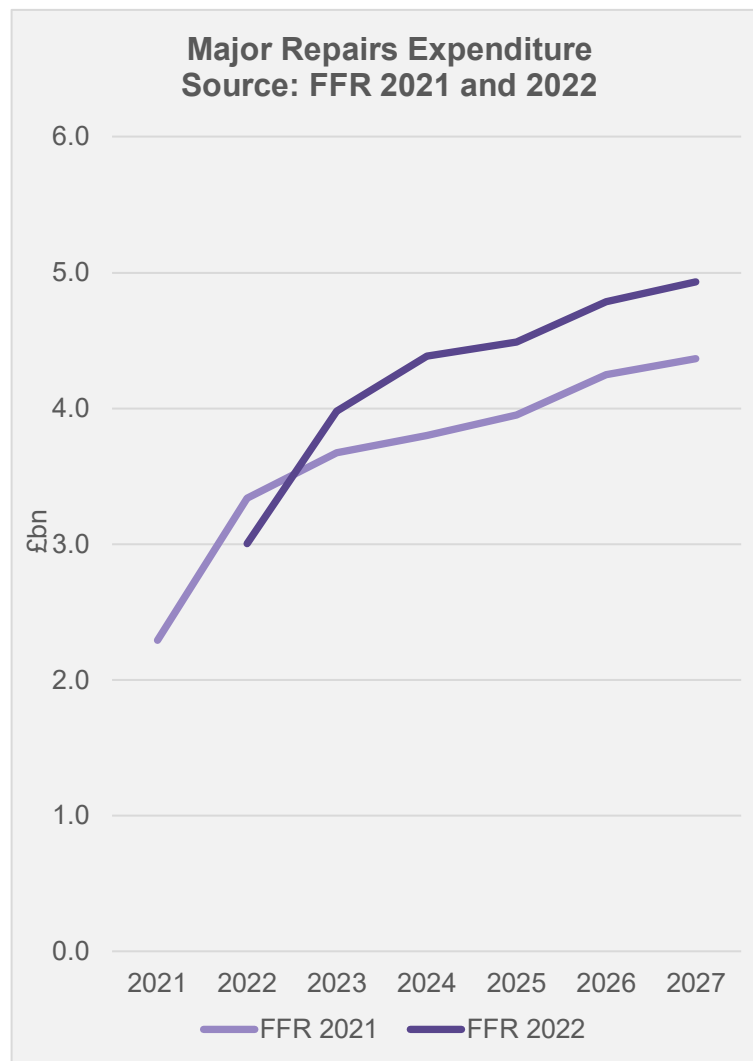
Sector risk

Long term forecast trends – weakening interest cover

- Figures show aggregate metric results for forecast years 1-5 from successive FFR datasets

- Interest cover is calculated on an Earnings Before Interest Tax and Depreciation basis, inclusive of capitalised repairs costs

- 2022 plans show a continuing deterioration of forecast levels of interest cover

- Increasing forecast expenditure on existing stock is a key driver of this deterioration

- Aggregate forecast repairs and maintenance spend per unit has increased by 45% (on a real basis) relative to forecasts made 5 years ago

Yr 1-5 aggregate EBITDA MRI interest cover
Source: FFRs 2018-2022

Year	Value
2018 FFRs	190%
2019 FFRs	181%
2020 FFRs	165%
2021 FFRs	161%
2022 FFRs	147%

Yr 1-5 aggregate repairs and maintenance spend per unit £000s
Source: FFRs 2018-2022

| Year	Value
2018 FFRs	£1.9k
2019 FFRs	£1.9k
2020 FFRs	£2.1k
2021 FFRs	£2.4k
2022 FFRs	£2.7k

Forecast repairs and maintenance spend

- A material increase in forecast repairs and maintenance spend for the third consecutive year of FFR submissions

- Comparing years 1-5 of forecasts total repairs and maintenance costs have increased by circa 16% (5.5bn) on last year's plans

- This follows an increase in 5 year forecast spend of £3.9bn in 2021 plans and £2.9bn in 2020 plans

- Major repairs spend has increased by £3.6bn (19%) relative to 2021 plans yrs 1-5

- 80% of all major repairs spend is capitalised

Major Repairs Expenditure
Source: FFR 2021 and 2022

Total Major Repairs and Maintenance Expenditure
Source: FFR 2021 and 2022

Increase in repairs and maintenance spend per unit

- Increases are widespread with the vast majority of providers including increased spend on a per-unit basis in the latest set of plans

- For 84% of providers, repairs and maintenance costs per unit (yrs 1-5) have increased by more than 5% on last years projections

- There are a number of drivers for increased spend impacting individual providers to varying extents:
  - Stock quality - building safety and decarbonisation
  - Catch-up spend – post covid and reprofiled spend
  - Economic – high underlying inflation and real increases in repair costs

**% Change in 5 Year Aggregate Major Repairs and Maintenance Per Unit
Source: FFR 2021 and FFR 2022**
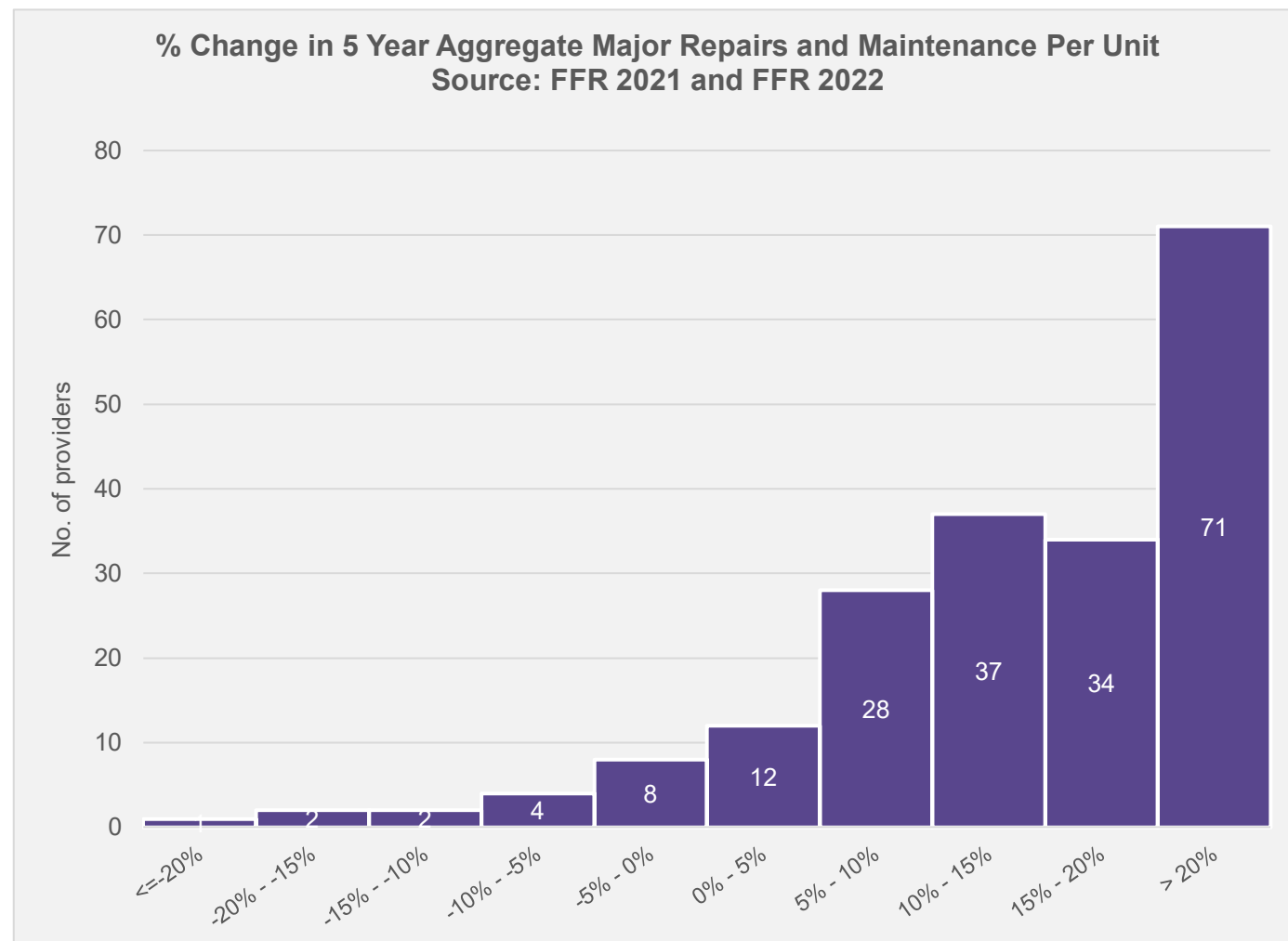
Sector risk profile themes

■ **Financial and macroeconomic**

- *Rents, inflation and interest costs, supply chain and labour*

■ **Stock condition and investment**

- *Current quality, future demands – DHS, decarbonisation*

■ **Services to tenants**

- *Understanding tenant needs, learning from recent experience*

■ **Development and sales**

- *Economics, supply chain, managing commitments, understanding delivery structures*

■ **Cyber and data**

- *Cyberattacks, data integrity, data coverage*

■ **Reputational**

- *Stock condition, tenant relations, investment*

Sector risk profile themes

- **Supported housing**
  - *Quality and sustainability of provision, financing structures, labour market*

- **Exempt accommodation**
  - *Quality, regulation and sector growth*

- **Political interest**
  - *All of the above*

Current and future expectations

Looking forward

Rents	Financing and economics	Homes	Tenants
• 7% cap • 2025 settlement	• Inflation and cost of financing • Labour and supply issues • Funding capital investment	• Quality • Knowledge • Data • Energy efficiency and net zero • DHS change	• Services • Needs • Knowledge • Respect • Equity

Proactive and responsive regulation