Mr Clive Betts
Levelling Up, Housing and Committee Select Committee Chair
CC: LUHC Select Committee membership

10 August 2023

Dear Chair,

Re: Finances and sustainability of the social housing sector inquiry – housing associations' surpluses

Following our evidence session on Monday 12 June, we are writing to the Levelling Up, Housing and Communities Select Committee's membership to provide further detail on housing associations' surpluses.

This letter aims to clarify what surpluses are and establish a clear understanding of the resources available to housing associations, in order to appropriately inform the inquiry into the finances and sustainability of the social housing sector.

Firstly, housing associations are not-for profit organisations, driven by a social purpose: providing good quality housing that people can afford. The discounted rents that residents pay represents housing associations' primary source of income and is invested in managing and maintaining existing homes, helping to build new homes and providing support to residents who need it. We do not pay dividends to shareholders. Every year we take our surplus, add new debt and use that to invest in new homes in our communities, the maintenance of existing homes and services for current residents.

Secondly, surpluses reported in housing associations' financial results are key to securing borrowing to deliver the essential work the sector does. This is partly how housing associations have been able to remain financially robust, borrow cheaply and at a high magnitude. By reviewing surpluses, investors recognise housing associations as financially prudent and strongly regulated, with a zero loss-from default record. This means the sector can plan projects that benefit current and future residents in the medium and long-term.

We can provide more detail on this point through the Regulator of Social Housing's *The global accounts of private registered providers 2022*. This reveals that the total cost of homes owned by providers is £173bn. This is funded by debt of £86bn and grants of £39bn.The balance of cost (£48bn) is funded by providers' accumulated reserves. If the sector had not generated these surpluses, they would have needed to fund the balance through additional borrowing. At an average interest rate of 5%, the total additional interest charge incurred would have been c£2.4bn per annum. This would have reduced the sector's surplus before interest from £5.6bn to c£3.2bn, which is lower than the interest charge actually paid (£3.3bn). The impact of this would be to reduce the sector's ability to borrow additional funds to zero, and it would be unable either to invest in existing homes or deliver new ones. The ability to generate surplus for reinvestment is vital to the viability of the sector.

The instability of the sector's rental income due to the government's imposed four year cut in social rents from 2016 to 2020 and the 2023/24 7% rent cap was partially mitigated by our retained surpluses. Therefore, surpluses should not be considered 'rainy day' funds that can be applied to cover costs elsewhere. They are essential to the current financial model of the social housing sector and for our core purpose of serving people in housing need.

Finally, any commercial activity undertaken by housing associations, such as building and selling homes for market, is done to generate additional surpluses which are invested in new and existing social homes and services to residents. Any reason outside this would be completely counter to our charitable objectives, which rests at the heart of the sector.

It is important that the nature of surpluses is understood when reviewing the overall finances of the social housing sector. It is in this context that we can understand the strain on housing associations' resources due to the funding model since the 2010s, the current economic environment and multiple pressures such as building safety remediation and achieving net zero across all homes by 2050.

We would be happy to provide further information if that would be beneficial. We hope this letter is helpful as the inquiry continues.

Yours sincerely

Kate Henderson, Chief Executive, **National Housing Federation**
Fiona Fletcher-Smith, **Chair, G15**
Paul Fiddaman, Group Chief Executive, **Karbon Homes**
Kate Wareing, CEO, **Soha Housing**