Scottish Housing Regulator

Summary of Registered Social Landlord Financial Projections 2024/25 - 2028/29

December 2024

Contents

About this report

This report provides an overview of the aggregated financial projections as submitted to the Scottish Housing Regulator (SHR) by all Registered Social Landlords (RSLs) during the returns submission period to May 2024. The projections cover the five-year period from April 2024 to March 2029, reflecting the corresponding RSL business plan period.

We collect Five Year Financial Projections (FYFP) annually from all RSLs. The return sets out the financial projections from an RSL's business plan across a five-year, medium term, period. The projections set out the main financial assumptions applied and incorporate the primary financial statements, along with additional context around, for example, development programmes and decarbonisation plans.

Strategic context and financial environment

Business plans will set out an RSL's strategic direction and their financial plans and how they will resource those plans for a specific period at a given point in time. However, there can often be significant changes made to forecasts in the intervening years, with several key factors likely to have continued to materially impact business plans and it is important therefore to read this report with that in mind:

1. the cost-of-living crisis that is still impacting tenants;
2. the increasing financial pressures associated with addressing the safety and quality of homes, including around energy efficiency;
3. the ongoing economic volatility including higher borrowing costs, skilled labour shortages and National Insurance (NI) increases. We have, for example, calculated that the NI changes alone could cost RSLs around £15 million in unplanned costs in 2025/26;
4. the risk of further disruption as the war in Ukraine and instability in the Middle East continue; and
5. funding cuts to the Affordable Housing Supply Programme.

Highlights

RSLs' aggregate financial position has weakened, leaving them with less financial headroom, although projections indicate a slight improvement in the medium term. We are engaging with more RSLs on financial matters than in the past, but most are still managing financial pressures, albeit with tightening finances. As a result, RSLs have reduced capacity to respond to emerging costs, like NI increases, which are not included in these projections. This means that Governing Bodies will continue to face some difficult choices and trade-offs as they prioritise expenditure.

At an aggregate level over the five years to 2028/29 RSLs forecast:

- annual turnover to increase by an average of 1.7% (2023, 1.0%) more than operating costs;
- net assets to grow by an annual average of 3.7% (2023, 3.9%), with modest growth of 2.5% in 2024/25 increasing to 4.3% in 2028/29
- taking aggregate net housing assets to £19.99 billion (2023, £19.30 billion), and net assets to £5.72 billion (2023, £5.59 billion);
- net cash from operating activities to increase significantly to £911.1 million by 2028/29;
- significantly reduced cash reserves, although still at a healthy level, with an aggregate closing cash balance of £561.3 million at March 2024 (2023, £801.0 million) dropping to £509.0 million by March 2029;
- interest cover remaining healthy, but lower than forecast in the 2023 returns;
- rent arrears marginally up but then steadily reducing, from 3.4% in 2024/25 to 3.0% by 2028/29;
- significant capital expenditure of £1.91 billion on existing homes, an average of more than £5,700 per property;
- estimated decarbonisation costs in the period to 2030 could range from £4.8 billion to £9.6 billion, while RSLs' projections include just £154.6 million; and
- a projected 22,600 new homes, to be funded primarily by £2.49 billion of social housing grant (53% of total cost) and £1.91 billion of private finance (40% of total cost).

RSLs continue to navigate a challenging operational landscape and over the past year threats to their financial stability have grown, leading to a decline in many RSLs' financial performance. The repercussions of the severe shocks that the UK economy has endured in recent years persist, with ongoing issues resulting from significantly increased costs, higher borrowing costs, and difficulties in securing skilled labour and materials. Furthermore, there is a significant risk of additional unforeseen disturbances arising from market volatility and global instability, including the ongoing conflicts in Ukraine and in the Middle East.

Simultaneously, the sector will need to invest significant sums in existing properties to enhance quality, ensure building safety, and meet net zero standards. Additionally, RSLs anticipate continuing to build new social housing to contribute to the Scottish Government's (SG) target of 110,000 homes.

This is occurring at a time when tenants and their families are continuing to endure considerable financial difficulties due to the cost-of-living crisis. Ensuring affordable rents for tenants is a primary objective for all social landlords. Most RSLs have shown restraint when increasing rents in recent years in recognition of the difficult financial position for many of their tenants. As a result, these RSLs have received lower income than they had originally planned for, leading to reduced resources for investing in homes and services. Landlords are also having to manage significant cost increases and new costs. All of this adds to the pressure to increase rents. At the same time, we are acutely aware that tenants and their families are still facing an incredibly difficult and worrying time with household finances under real strain. That is why it has never been more important for social landlords to have meaningful conversations with their tenants about rent increases, and to examine all of their expenditure to ensure it is necessary and delivers positive outcomes for tenants and service users, and provides good value for money

As a consequence of the UK Budget changes to employers' National Insurance Contributions (NIC) we estimate that the aggregate impact on RSLs could be around £15.0 million in additional costs each year. The calculation includes the impact of the 1.2% increase in Employers' NIC and the reduction in the secondary threshold, the level at which employers start paying NIC on each employee's salary, from £9,100 a year to £5,000.

Rising costs and constrained rent increases have diminished the financial headroom of RSLs. The effects of this are already becoming evident for RSLs, tenants, and the SG, with fewer landlords building fewer new homes, reduced maintenance budgets for many RSLs, and cuts to some of the broader services that support tenants and communities. Governing Bodies will need to manage risks, identify emerging pressures, and ensure that their RSL can withstand potential future shocks.

Since 2020, RSLs interest cover has consistently declined, dropping to 200% in 2023/24 from 246% the previous year. Future interest cover is now forecast to rise again due primarily to interest rates having started to drop, with further reductions anticipated. Overall liquidity remains strong, with total cash and undrawn facilities amounting to £1.48 billion.

The weighted average interest rate for new fixed-rate loans taken by RSLs in 2023/24 was 5.0%, up 0.7% from 4.3% in 2022/23. Most existing debt is fixed for over five years. However, a sizeable portion of RSLs' debt is either at a variable rate or will soon require refinancing at higher rates and potentially shorter terms. You can read more about RSLs' debt in our annual loan portfolio report for 2024.

Voids, arrears, and bad debts remain critical performance indicators for evaluating the efficiency of RSLs' letting and rent collection processes. Voids and bad debts are expected to either remain stable or see slight improvement. However, the continued financial strain on tenants risks future increases in arrears, and so RSLs stress testing for potential income reductions remains crucial.

Analysis of the FYFP inflation assumptions compared to forecast figures published by the Office for Budget Responsibility in October 2024 shows average aggregate rents increasing by more than CPI and RPI in Year 1, with that trend continuing across the remainder of the current projections period, although the gap between rent increases and the inflation measures is expected to narrow over time.

The UK economy has faced a series of significant shocks in recent years, leading to a decline in the rate at which RSLs are building new homes, with this trend expected to continue over the next five years. RSLs' forecasts for the 2024 FYFPs show a 13% reduction in the total number of new homes planned, compared to the 2023 FYFPs, which were already 17% lower than the previous year's projections. RSLs attribute this decline primarily to rising construction costs and uncertainty over the future availability of grant funding.

Additional pressures, such as increased costs for maintaining existing homes and uncertainty regarding spending on the proposed Social Housing Net Zero Standard, have also contributed to reductions in planned expenditure on new homes. Furthermore, many development projects continue to be hindered by labour shortages and subcontractor insolvencies.

Development projects carry their own set of risks, and factors such as high inflation, labour shortages, supply chain disruptions, and contractor insolvencies are causing delays and affecting RSL developments. This underscores the need for effective oversight and management of development programmes by Governing Bodies, including stress testing for potential cost increases or delays. Our development thematic remains a key reference for RSLs when considering whether to proceed with new development projects.

We asked RSLs in the FYFP return if they had considered the costs of de-carbonisation and to tell us what estimated future costs they have incorporated into their projections. This is a significant risk area that will have a material impact on the funding of business plans, but as yet most RSLs have not set out these costs. Many told us they are awaiting the finalisation of the SG's proposed Social Housing Net Zero Standard for clarity on what they will be required to invest and for further clarity on potential funding sources.

We have previously estimated the additional costs in the period to 2030 could range from £4.80 billion to £9.60 billion. The current aggregate level of costs included by RSLs in financial projections is £154.6 million.

It remains crucial for RSLs to maintain adequate liquidity, especially in this period of economic volatility. We will engage with RSLs with low liquidity indicators and maintain close engagement with RSLs where our analysis indicates weak financial performance, and this will be reflected in their regulatory status and engagement plans.

The Next Five Years – Projections to 2028/29

Statement of Comprehensive Income

The recurring headline, shown again in the latest FYFP submissions, is that annual aggregate RSL turnover is forecast to continue to increase, on average, by more than operating costs over the next five years, with the sector figures therefore expecting to continue to show aggregated annual surpluses being generated.

An average annual rise in turnover of 5.4% (2023, 5.2%) across the projections period is marginally up on last year and compares more favourably than last year with a projected 3.7% (2023, 4.2%) average increase in operating costs over the same period. With an average annual turnover increase up from the 2023 projections and a corresponding drop in the average annual increase in operating costs, the sector forecasts an overall increase in turnover of 29.9% (2023, 28.6%) to £2.71 billion by 2028/29, with operating costs up by as much as 10.0% less at 19.9% (2023, 23.0%) to £2.07 billion over the same period.

The impact, as shown in Table 1 below, is that the aggregate annual operating surplus is forecast to increase from Year 1 to Year 3; from £378.1 million in 2024/25 to £559.9 million in 2026/27, drop back marginally to £554.3 million in 2027/28, but increase again to £598.0 million in 2028/29, the last year of the current projections period. However, annual increases in loan debt and higher interest rates mean debt servicing costs are also projected to keep rising, with interest payable increasing steadily from £272.5 million in 2024/25 to £319.2 million by 2028/29. As a result, there is some fluctuation in the projected annual net surpluses; £127.8 million in 2024/25 rising to £212.3 million mid-term, but dropping back to £205.8 million in 2027/28, before rising again to a five-year peak of £237.3 million in 2028/29.

	2024/25	2025/26	2026/27	2027/28	2028/29
Turnover	2,256.1	2,370.0	2,491.3	2,605.3	2,713.9
Operating costs	1,832.3	1,878.6	1,938.2	2,010.2	2,068.5
Operating surplus	378.1	451.6	559.9	554.3	598.0
Interest payable	272.5	282.8	288.8	308.3	319.2
Net surplus	127.8	168.1	212.3	205.8	237.3

Table 1: Turnover & costs

The sector has consistently projected that turnover will increase by more than operating costs, the assumption being that, particularly for those RSLs with a new build development programme, additions to rental income will be more than the associated operating costs. That assumption is tried and tested across many FYFP cycles, however more recently the challenging economic climate had stretched it with RSLs having to absorb the impact of restrained rent increases and delayed or cancelled development projects, while balancing a trade-off between lost revenue and the affordability concerns of their tenants.

While the aggregate projections show a downward trend in annual increases in turnover, they still forecast that the total monetary increase in turnover will exceed the increase in operating costs across all years. The gap is larger in the earlier years, peaking in 2025/26 with turnover up by 5.0% against a corresponding 2.5% increase in operating costs, but by 2028/29, as projected development programme additions tail off, that gap halves with turnover up 4.2% against a 2.9% rise in operating costs.

In 2024/25, while the direct impact of the Covid-19 pandemic has lessened, the ongoing war in Ukraine and significant unrest in the Middle East continue to contribute to a persistent cost-of-living crisis. As a result, RSLs are still navigating the challenge of recovering lost revenues to fund their priorities, whilst also managing affordability pressures affecting their tenants. RSLs continue to face challenges such as labour and material shortages, rising material costs, and higher labour expenses as contractors deal with their own increased wage demands. Considering these factors, RSLs must remain vigilant about the potential impact on any interest cover covenants.

Rental income will always be the core revenue stream for most RSLs, but other regular sources of income continue to contribute to turnover, as shown in Table 2 below.

	2024/25	2025/26	2026/27	2027/28	2028/29
Net rents and service charges	78.2%	78.3%	78.0%	78.1%	78.2%
Developments for sale income	0.2%	0.3%	0.2%	0.2%	0.1%
Grants released from deferred income	10.2%	10.8%	11.3%	11.3%	11.3%
Grants from Scottish Ministers	0.7%	0.4%	0.4%	0.4%	0.3%
Other grants	0.6%	0.6%	0.5%	0.5%	0.5%
Other income	10.0%	9.7%	9.6%	9.5%	9.5%

Table 2: Forecast split as % of turnover

The release of grants remains a steady driver of turnover. However, this does not generate additional positive cashflow benefits but is instead dictated by an accounting policy choice and reflects developing RSLs adopting the performance method of grant accounting, where rather than releasing grant over the useful economic life of the properties it funds, it is released in full as those properties are built.

Care continues to be a crucial revenue stream for the sector, with over 55% of additional income coming from care and support organisations. However, this income is still mainly generated by just eight RSLs employing more than half of their staff in primarily care and support roles. These RSLs are facing heightened cost pressures and will be particularly affected by the NI increases. Additionally, they should be mindful of the downward pressure on support contracts, with local authorities also grappling with similar financial challenges.

Statement of Financial Position

Aggregate net assets are projected to grow by an annual average of 3.7% (2023, 3.9%) over the five years. Growth forecasts are broadly down on last year and are expected to show more of a fluctuation, increasing in the first few years from 2.5% in 2024/25 to 4.2% in 2026/27, dropping back to a 3.9% increase in 2027/28, but with the largest annual increase of 4.3% projected for 2028/29. This growth profile would take aggregate net housing assets to £19.99 billion and net assets to £5.72 billion by the end of 2028/29.

The outturn for 2023/24 indicates that the anticipated increase in arrears to over £50.0 million, as projected in the 2023 FYFPs, has not materialised, with arrears reaching only £46.1 million. However, current projections suggest a significant rise to £59.3 million in 2024/25, followed by a relatively stable period during the middle years of the projections. Arrears are expected to reach £62.8 million by 2027/28, and £64.1 million by the end of the projections period in 2028/29.

In aggregate, RSLs continue to project the availability of significant cash reserves. However, a closing cash balance of £685.2 million from the 2023/24 Audited Financial Statements (AFS) returns is projected to fall away sharply to £495.4 million across Years 1–3, before recovering marginally to close 2028/29 at £509.0 million (see Table 3 below).

2022 projections	2024/25	2025/26	2026/27	2027/28	2028/29
Net rental receivables	59.3	60.8	61.8	62.8	64.1
Other short term receivables	214.8	222.8	222.9	219.8	222.8
Cash at bank and in hand	561.3	521.4	495.4	519.0	509.0
Loans due within one year	(133.7)	(167.1)	(194.1)	(179.8)	(149.0)
Other short term payables	(629.3)	(662.3)	(694.1)	(722.3)	(699.7)
Net current assets / (liabilities)	72.4	(24.4)	(108.1)	(100.5)	(52.8)

Table 3: Net current assets

The profiled movement would see net current assets for 2024/25, but net current liabilities across the remainder of the projections period, with a swing of £180.0 million from Year 1 to Year 3, and closing 2028/29 at £52.8 million. The 2024/25 figure is primarily driven by cash, a combination of unutilised drawn down debt from the previous year and the lasting effects of the pandemic when RSLs faced restrictions in performing key aspects of their daily operations, despite having access to the funds needed to do so.

Outstanding loan debt is forecast to increase by 26.2%, reaching £7.21 billion. The average annual rise of 5.6% over the first three years will decrease to below 3.5% in the following two years as committed development activity slows, leading to reduced new borrowing. The breakdown of the outstanding loan debt between short-term and long-term is presented in Table 4 below.

	2024/25	2025/26	2026/27	2027/28	2028/29
Loans due < 1 year	133.7	167.1	194.1	179.8	149.0
Loans due > 1 year	5,885.9	6,216.3	6,543.0	6,814.1	7,064.0
Totals loans balance outstanding at y/e	6,019.6	6,383.4	6,737.1	6,993.9	7,213.0
% annual change	5.3%	6.0%	5.5%	3.8%	3.1%

Table 4: Split of short and long-term debt

Statement of Cash Flows

Cash flow will remain a critical component of any RSL’s operations, with adequate cash generation essential for both financial viability and long-term sustainability. We closely monitor how and when this cash is spent, whether on day-to-day operations or supporting a substantial development and investment programme. The key figures from the aggregate cash flow projections are presented in Table 5 below.

	2024/25	2025/26	2026/27	2027/28	2028/29
Net cash from operating activities	645.8	719.8	791.4	849.8	911.1
Returns on investment and servicing of finance	(256.2)	(273.5)	(282.9)	(303.6)	(317.9)
Capital expenditure and financial investment	(801.6)	(851.7)	(888.4)	(781.7)	(821.9)
Net cash from financing	293.1	357.6	361.6	259.3	219.4
Increase/(decrease) in net cash	(119.2)	(47.8)	(18.3)	23.7	(9.4)

Table 5: Extract of statement of cash flows

Net cash from operating activities is forecast to increase significantly to £911.1 million by 2028/29, consistent with earlier comments on turnover increasing ahead of operating costs, and the projections clearly show steady annual increases in net cash from operating activities. However, interest payments are also expected to steadily increase, reflecting higher levels of loan debt but also higher interest rates.

Six months on from the projections being submitted, we saw the first reduction in interest rates for over four years. Base rate dropped to 5.0% in August 2024 with the Bank of England introducing a further cut to 4.75% at its meeting in November 2024. Bank of England policy makers have indicated that they will continue to take a 'gradual approach' to cutting interest rates, as they assess the inflationary impact of the October 2024 budget.

Inflation reached the government's long-term target of 2.0% in June 2024. Having fallen further to 1.7% in September, it rose again to 2.3% in October, and it is often these two months that are used by RSLs as reference points when consulting on future rent increase proposals. Borrowers should not expect any significant further reductions in inflation in the near term and RSLs must remain prepared to manage a potentially longer period with no further meaningful reductions in interest payments and operating costs.

The cash flow projections also show a decline in annual capital expenditure, with a drop of over £100 million from 2026/27 to 2027/28. This is likely due to RSLs adopting a more cautious approach, focusing only on committed development projects, which tend to be profiled in the earlier years. However, it could also reflect a broader reduction, influenced by the cost-of-living crisis and the restrained rent increases in recent years.

In summary, net cash outflows are projected for Years 1-3, with the most significant decrease expected in Year 1 (2024/25). This was anticipated, as RSLs are still catching up on work initially delayed by pandemic restrictions, and more recently by skilled labour shortages affecting repairs and maintenance programs. The tight labour market is driving up costs and worsening existing skills shortages, which could threaten landlords' ability to deliver these programmes and services.

The ratio of cash generated from operations to interest paid had been falling in the years prior to the pandemic but that trend reversed in 2020/21, and although current forecasts have it slowly but steadily rising across the projections (see Table 6 below), it is not expected to peak as high as projected in the 2023 projections, with a previous high of 2.9 now expected to peak marginally down at 2.8.

	2024/25	2025/26	2026/27	2027/28	2028/29
Net cash from operating activities	645.8	719.8	791.4	849.8	911.1
Interest paid	271.2	284.9	292.1	312.0	326.2
Ratio (%)	2.4	2.5	2.7	2.7	2.8

Table 6: Ratio of cash generated from operations to interest paid

The most volatile cash flow figure is for the construction and acquisition of housing properties, which shows an increase of 32.8% in 2024/25, before dropping to only a 6.2% increase in 2025/26, and then year-on-year decreases of 6.2%, 14.6% and 9.8%. The earlier years reflect some of the necessary re-profiling of expenditure because of previous restrictions during the pandemic, and the later years reflect the reduction in development activity as committed projects typically tail off.

Financial Assumptions

As part of the FYFP return RSLs provide the key financial assumptions which form the basis of their short, medium, and long-term financial projections. Data collected in the 2024 FYFPs gives an insight into the sector's view of the operating economic climate at that time, with Tables 7 & 8 below sharing some of the information on key planning assumptions around inflation and rents.

General inflation	2024/25	2025/26	2026/27	2027/28	2028/29
Sector	4.6	2.9	2.5	2.3	2.3
Minimum	2.0	0.0	0.0	0.0	0.0
Median	4.6	3.0	2.1	2.0	2.0
Maximum	8.0	6.5	5.0	5.0	5.0

Table 7: General inflation

	2024/25	2025/26	2026/27	2027/28	2028/29
Sector	1.4	0.9	0.8	0.8	0.7
Minimum	(2.5)	(1.0)	(1.0)	(1.0)	(1.0)
Median	1.0	1.0	1.0	1.0	1.0
Maximum	15.0	3.1	3.0	3.5	3.0

Table 8: Gross rent increase margin

As RSLs approached their annual rent setting for 2025/26, inflation had dropped below the levels that were being forecast around the time the 2024 FYFPs were submitted. In fact, at only 1.7% for September 2024, CPI inflation had fallen below the UK Government's 2.0% longer term target. However, with a rise to 2.3% in October and the prospect of further rises in the latter part of the year we may not necessarily see this lower level reflected in an average rent increase in the 2025 FYFP submissions.

What is clear is that RSLs still face an uncertain and challenging operating environment and Governing Bodies must continue to ensure appropriate stress testing of any changes in underlying assumptions to fully understand the impact on their business and to help mitigate against unforeseen movements.

Rent Increases and Inflation

Analysis of the inflation assumptions compared to figures published by the [OBR in October 2024](#) shows the average rent increase significantly exceeded both CPI and RPI forecasts in Year 1 of the projections. Although the average rent increase is forecast to fall each year, including a drop of more than 2% going into 2025/26, it is assumed to stay above inflation forecasts throughout the remainder of the projections period. However, six months on from the 2024 projections being submitted, and with the benefit of up-to-date OBR forecasting, the likelihood is that the gap between the sectors average rent increase assumptions and CPI/RPI going forward will narrow. The forecast figures are shown in Table 9.

	2024/25	2025/26	2026/27	2027/28	2028/29
Average rent increase	6.0	3.8	3.3	3.1	3.0
CPI	2.3	2.6	2.2	2.1	2.1
RPI	3.4	3.5	3.2	3.1	2.9
Eligible rent growth assumptions for RSLs	7.8	3.2	3.8	3.3	3.2

Table 9: Average RSL rent increases from the FYFP compared to OBR inflation forecasts

At the individual RSL level, Table 10 illustrates the significant disparity between rent increases and inflation. Upon examining this data, it is known that the sector has traditionally based its annual rent increase assumptions on inflation rates from the previous September (CPI Sept 23, 6.7%) or October (CPI Oct 23, 4.6%), which typically aligns with the start of the budgeting and rent-setting process. Although the table shows that all but seven RSLs increased rents by more than RPI for 2024/25, the average increase of 6.0% would have been largely determined when inflation was much higher than it was at the start of 2024/25. While inflation and rent increase assumptions are expected to remain consistent for most, by the final year of the current projections, 98 RSLs are anticipating continuing to raise rents above RPI.

	2024/25	2025/26	2026/27	2027/28	2028/29
Average rent increase	6.0	3.8	3.3	3.1	3.0
CPI or less	1	13	13	21	27
CPI to RPI	6	31	66	76	13
RPI or more	131	94	59	41	98

Table 10: Spread of RSL rent increases compared to OBR inflation forecasts

RSLs in Scotland applied an average rent increase in April 2024 that was significantly above the CPI inflation rate of 2.3% at that time. Landlords told us that last year's annual rent setting exercise was one of the most difficult they have faced. This year will also be hugely challenging as they consider costs that although rising slower after the recent drop in inflation, are still rising while also recognising the financial hardship that remains a reality for many of their tenants. Any rent increase above CPI is still likely to increase the pressure on affordability for tenants.

The drivers of rent increases can be many and varied and can often also be beyond the control of RSLs. RSLs consistently face the conflicting challenge of keeping rents at levels their tenants can afford while continuing to provide tenant priorities in relation to services, maintenance, and planned investment in tandem with building the necessary financial resilience to manage the risks they face.

Tenants continue to face difficult and worrying times. Our most recent findings from the survey of the National Panel of Tenants and Service Users concluded that more than half (53%) of tenants that responded have experienced difficulties affording their rent and other housing costs. However, the 29% of responding tenants that have experienced difficulties in the last year is at least down from a high of 41% the previous year. In a move away from increasing energy costs, the potential impact of future rent increases has become the most common factor contributing to rent affordability difficulties, and 77% (2023, 83%) were concerned about the future affordability of their rent.

RSLs have shown some restraint when increasing their rents, however, tenants still face financial challenges and RSLs should continue to scrutinise all elements of their expenditure to ensure they are necessary, focused on the delivery of outcomes for tenants and others who use their services, and represent value for money. The annual rent setting exercise is likely to remain difficult for several years to come.

Financial Ratios

A summary of the forecast interest cover and gearing ratios is shown in Table 11.

	2024/25	2025/26	2026/27	2027/28	2028/29
Interest cover (%)	243.6	256.7	274.1	275.1	281.8
EBITDA MRI (%)	162.0	193.3	239.5	225.8	231.1
Gearing (%)	111.5	115.7	118.2	118.1	117.2

Table 11: Interest cover and gearing forecasts

Forecasts for interest cover are lower across all years compared to the 2023 FYFP returns, but remain robust, with the expectation of year-on-year increases. When the 2024 returns were submitted, interest rates were at their highest in 15 years, peaking at 5.25%. This rise was part of the Bank of England's efforts to tackle persistently high inflation. Rates are now at 4.75% however, were they to increase again we estimate that an additional 1.0% could raise annual interest charges for the sector by up to £14.5 million, potentially leading to a decrease in interest cover for many RSLs.

Steady increases take interest cover to 281.8% for 2028/29, with an annual average of 266.3% which, although down on the 275.4% average from the 2023 FYFPs, still represents a healthy position for the sector. Interest cover continues to be of interest to lenders and remains a common ratio for covenants. We know that calculations can vary from RSL to RSL and from lender to lender, and it can therefore be difficult to draw meaningful comparisons, but whatever the nuances of the calculation, the aggregate position is forecast to strengthen over the short to medium term.

Earnings before interest, taxation, depreciation & amortisation, major repairs included (EBITDA MRI) is impacted by capitalised maintenance costs and due to an increase in those costs, the figure for 2024/25 is lower than it was for 2023/24. Many RSLs will have this as a loan covenant and we have previously highlighted that ongoing issues, particularly in relation to labour and material shortages, meant that the need for expenditure on catch-up repairs in 2023/24 could yet stretch into 2024/25 and the years beyond. RSLs should continue to be vigilant to any impact on their interest cover covenants. We know many RSLs have been able to negotiate potential waivers and/or changes to their covenant requirements with lenders. Any RSL at risk of a covenant breach should have an early dialogue with their lender and should also submit a notifiable event of a potential breach to SHR through the Social Landlord Portal.

Increasing gearing over the first half of the projections reflects increasing borrowing. Loan debt is expected to continue rising over the remaining years, but at a slower rate, so with increased net assets gearing levels fall. Gearing reflects the sector’s reliance on private finance but also on the availability of grant funding, with the sector north of the border traditionally benefiting from a higher state contribution than in England or Wales.

At 31 March 2024, 29% of outstanding loan debt was on a variable interest rate, and Governing Bodies should ensure they are managing risks from existing debt. RSLs should ensure robust stress testing to help them understand how sensitive their business plans are to increases in interest rates. Further analysis of the loan portfolio returns for the year to March 2024 can be found in our annual loan portfolio report for 2024.

Alongside improving interest cover and earnings, other key profitability ratios also project a slow and fluctuating but broadly upward trend throughout, as shown in Table 12 below.

	2024/25	2025/26	2026/27	2027/28	2028/29
Gross surplus (%)	16.8	19.1	22.5	21.3	22.0
EBITDA to revenue (%)	19.6	23.1	27.8	26.7	27.2
Net surplus (%)	5.7	7.1	8.5	7.9	8.7

Table 12: Profitability forecasts

We will continue to monitor the impact, particularly on voids, arrears, and bad debts. Table 13 below sets out the projected aggregate sector position across these three key measures.

	2024/25	2025/26	2026/27	2027/28	2028/29
Voids (%)	1.5	1.5	1.4	1.3	1.3
Arrears (%)	3.4	3.3	3.2	3.1	3.0
Bad debts (%)	1.1	1.3	1.3	1.2	1.2

Table 13: Voids, arrears, and bad debt forecasts

Voids, arrears, and bad debts remain key performance indicators, particularly in assessing the efficiency of letting and rent collection.

Voids show a broadly similar profile to last year. The early year figures are identical, with a marginal improvement forecast towards the latter part of the projections period. However, there always remains the possibility of rent losses increasing, particularly if ongoing labour shortages and supply chain disruption leads to delayed works, and in turn, increased re-let times.

Arrears as a percentage of rental income are forecast to peak in 2024/25, reflecting tenants experience of cost-of-living pressures while incomes fall in real terms. Beyond that they are expected to steadily return to more recognised pre-pandemic levels.

There is no similar spike expected for bad debts, suggesting that RSLs feel their mitigating actions are continuing to work and that the longer-term risk of tenants not being able to pay their rent is in fact not dissimilar to pre-pandemic levels.

Investment in Existing Stock and Net Zero Carbon

RSLs continue to forecast significant capital expenditure on improving their existing stock, a total of £1.91 billion over five years for an average of more than £5,700/unit. (2023, £5,100)

In addition to regular cyclical maintenance and a component replacement programme, RSLs should anticipate significant and costly future investment to meet the Social Housing Net Zero Standard once it is finalised. This will be especially relevant for pre-1919 tenement properties. In November 2023, the SG published a consultation seeking feedback on this new standard, which is to replace the second Energy Efficiency Standard for Social Housing

(EESSH2). The outcome of this consultation will provide crucial guidance for RSLs in planning the necessary future investment, with it becoming a key factor in shaping their medium to long-term investment strategies.

The sector currently forecasts combined capital and revenue expenditure of £808.7 million (compared to £351m in 2023) on EESSH compliance. This represents a significant increase from the 2023 FYFPs. A further £415.5 million (compared to £370m in 2023) is forecast for investment in pre-1919 stock and from information provided on the number of pre-1919 units, this would equate to around £15,000/unit and represent an increase of £45.5 million from the 2023 FYFPs.

It is essential for RSLs to have a thorough understanding of the condition of any of their properties and the ongoing investment required for their maintenance, including any additional measures needed to meet tenant and resident safety obligations. A well-developed asset management strategy, with clear connections to business plans and financial forecasts, can help increase confidence in long-term viability. RSLs should consult our updated Integrated Asset Management advisory guidance, published in February 2023, when developing or enhancing their asset management approach.

RSLs may face tough decisions when balancing investment in existing properties with funding new build development programmes. The needs of current tenants must be weighed against future demands, and forecasts suggest that RSLs may need to raise unprecedented levels of debt to meet these requirements.

It is also recognised that significant future investment will be required to de-carbonise stock towards the SG's 2045 net zero target. To achieve this, targeted investment in existing stock will be essential; to improve energy efficiency but also to aid the move away from fossil fuel-based heating.

Acknowledging the significance of this issue and its potential impact on financial health, we included additional questions in the FYFP return. We asked RSLs whether they had considered de-carbonisation and, if so, to what extent estimated future costs have been factored into their projections. The responses are outlined below:

- 31 RSLs indicated they had considered de-carbonisation as part of their business planning, representing 22% of all RSLs. This is up on the 26 that indicated their consideration in 2023. All 31 RSLs say they have considered the cost impact on their forecasts, representing an improvement on last year where several said they had yet to consider the cost implications

- of the 31 RSLs who included costs, estimates ranged from £0.01 million to £60.3 million

- 19 of the RSLs who confirmed they had made some provision also did so in 2023. The aggregate expenditure forecast across these 19 has increased to £137.4 million from £117.1 million, with the total for all RSLs increasing to £154.6 million from £129.5 million, at least in part reflecting the increase in the number of costed RSLs

- where comments have been input, but no costs provided, the underlying theme is one of waiting for the policy framework to be put in place, and more definite costings to be available, before they will commit to including anything

- some RSLs answering ‘no’ have indicated that costs have been considered as part of their wider programme but have not been separated out of a total investment figure. However, had these RSLs answered ‘yes’ it would not have materially increased the number of RSLs actively considering the future financial impact

- it is concerning that for such a significant risk area with the potential to have a material impact on the funding of business plans that the majority of RSLs are still using the fallback position of there being no policy framework in place or insufficient available information on costs. This is in marked contrast to the position in England & Wales where Registered Providers are much more likely to include the future impact of de-carbonisation in their business plans.

There remains limited data on how much additional investment might be required. If we were to update the details in the 2021 joint report by Savills and the National Housing Federation for recent CPI inflation then estimated costs in England would range from £28,626 for a flat (was £24,250) to £43,736 for a 3-bed semi-detached house (was £37,050), with figures inclusive of non-fabric costs of £13,516 (was £11,450). However, in discussions with RSLs we are told that the cost inflation rates experienced recently have been significantly higher than CPI so these estimates would reflect an optimistic position.

In Scotland, it is expected that pre-1919 tenements will potentially prove the most difficult and therefore the costliest to get to net zero carbon. Similarly, therefore, if we take the 2021 Southside Housing Association retrofit pilot that raised eight sandstone tenement flats to Passivhaus standard and inflate the original figures then spending would be the equivalent of £43,677 per flat (was £37,000) on energy efficiency measures.

With more than 25,300 pre-1919 tenements and taking the inflated cost of Southside’s energy efficiency measures as a proxy, then the cost to the sector could be over £1.10 billion. The latest aggregate figure included in the FYFPs for capital and revenue expenditure on pre-1919 properties is less than half that at £415.5 million.

Similarly, if we were to extrapolate the inflated cost of the Savills/NHF figures using the outturn units from the 2024 FYFPs of approx. 319,000 then the additional fabric costs to 2030 could range from £4.80 billion (from the flat estimate) to £9.60 billion (from the house estimate).

These figures differ significantly from the current total cost estimate by RSLs of £154.6 million. To fund these much higher estimates entirely through rents would require annual increases ranging from 48% to 92%. Alternatively, funding solely through additional borrowing could result in interest charges in excess of £1.10 billion by 2030, assuming RSLs could secure fully amortising loans at the current Bank of England Base Rate of 4.75%.

Future Development

The development of new affordable homes continues to be a government priority and the 2024/25 Programme for Government reaffirms a commitment to deliver 110,000 by 2032 of which at least 70% should be for social rent and 10% in remote, rural and island communities. In addition to providing quality, affordable and secure homes to those in housing need, the affordable housing programme also aims to bring benefits across the National Performance Framework, as well as being a fundamental part of the strategy to tackle homelessness.

A summary of the number of new units projected to be added by the current development plans over the next five years is shown in Table 14 below.

	2024/25	2025/26	2026/27	2027/28	2028/29
New social rent properties added	3,373	4,089	3,817	3,686	3,130
New MMR properties added	558	852	854	1,002	970
New LCHO properties added	28	19	36	35	6
Transfers In	0	0	0	0	0
New other tenure properties added	18	22	34	30	18
Total affordable housing units added	3,977	4,982	4,741	4,753	4,124

Table 14: Forecast development numbers

In looking at these plans, it is important to bear in mind that whilst some RSLs have always chosen to include aspirational plans, most continue to be more prudent, by only including those projects where there is a clear development commitment. Rising build and finance costs are not making it any easier for RSLs to put those firm commitments in place and the aggregate projections reflect this, with forecast completions dropping off from as early as Year 3 of the projection period and are again down year on year as a five-year total.

The total number of new units forecast for development, at around 22,600, is 13% down on the 26,000 projected in the 2023 FYFPs. It is anticipated that the new units, at a cost of £4.74 billion, will be funded primarily by social housing grant (£2.49 billion, 53% of cost) and private finance (£1.91 billion, 40% of cost). A full breakdown of the forecast development funding profile is shown in Table 15 below.

	2024/25	2025/26	2026/27	2027/28	2028/29
HAG	453,411.8	536,088.5	537,114.0	494,065.1	467,432.1
Other public subsidy	3,404.9	1,992.0	0.0	250.0	0.0
Private finance	325,495.1	402,993.7	374,072.6	429,850.9	381,611.7
Sales	9,297.3	7,243.2	7,059.0	5,386.8	2,294.4
Cash reserves	79,211.2	56,463.8	63,044.3	53,056.8	45,303.1
Other finance	0.0	223.2	0.0	0.0	0.0
Total cost of new units	870,820.3	1,005,004.4	981,289.9	982,609.6	896,641.3

Table 15: Forecast development cost & funding

In addition to the traditional methods of funding, some RSLs will look to sale proceeds and whilst the number of sales has always been lower in Scotland than in England, the risk attached to relying on sales is greater if RSLs need to be able to sell at a high enough price and/or volume to at least partly cover the required investment in new properties. However, from the forecasts, sales proceeds of little more than £31.0 million across the projections clearly indicate more of a top up funding source reducing the reliance on grant funding and private finance, rather than something that the sector is overly relying on.

Forecast committed development levels continue to drop, and with as few as 13 RSLs adding almost 75% of the completed units in 2023/24 it remains a small number of RSLs responsible for the majority of the proposed new build development. The development process carries a significant range of added risks, which if inadequately managed have the potential to seriously impact RSLs, tenants and the sector as a whole and given the turbulent economic climate in recent times, these risks have significantly magnified. All RSLs, including those looking to develop for the first time, or even for the first time in a long time, can refer to our development thematic to assess the potential risks when they are making decisions on whether to take a project forward.

Economic volatility continues to bring significant disruption to RSLs new build development programmes and there are still supply chain disruptions, labour shortages and significant cost increases. The risk of business failure still remains, nowhere more so than in the construction industry, and reflective of this and the other financial challenges driven by the cost-of-living crisis, RSLs forecast that average development costs per unit will exceed £200,000 for the first time in 2024/25 although that figure of £219,000 per unit is expected to be the peak unit cost across the next five years, dropping to £201,000 in 2025/26, before rising again to £217,000 in 2028/29. These figures are a significant increase on those from previous projections, with 2024/25 for example having risen some 23% from £179,000 per unit in 2023 to £219,000 per unit in 2024. The current financial challenges associated with sustaining a significant development programme means it remains crucial for RSLs to have appropriate plans in place to try to mitigate as best they can the added risk that development brings.

Since the 2024 FYFP returns were submitted, the economic picture has seen a reduction in inflation and the first reductions in interest rates for over 4 years. Despite that, we are still seeing evidence of continuing supply-chain and labour market pressures, with cost inflation still expected to lead to a continued squeeze on development plans in the next round of projections.

Against this backdrop is the SG 2032 new homes target. Funding of £3.20 billion across the current parliamentary term has already been committed to this, however RSLs are increasingly mindful of the competing pressure of net zero and the prospect of funding potentially having to be redirected towards that in the years ahead.

In addition, when looking at the recent outturn development figures the sector has only achieved annual completions of more than 5,000 units four times in the last ten years, averaging around 4,700 new units across that period (see Table 16 below).

	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Year 1 forecast	4,230	3,723	3,603	5,325	6,358	7,064	6,025	7,947	8,122	6,109
Outturn	3,753	3,755	3,494	3,914	5,054	5,314	3,412	7,158	5,913	4,998
% difference	-11.3%	0.9%	-3.0%	-26.5%	-20.5%	-24.8%	-43.4%	-9.9%	-27.2%	-18.2%

Table 16: Outturn development numbers compared to forecast

The pandemic clearly had a significant impact on completions in 2020/21, but from 2017/18 onwards in particular we can see a consistent pattern of over-forecasting, with actual completions regularly more than 20% down on forecast.

Projected borrowings

Our analysis shows that RSLs expect to increase loan debt to £7.21 billion by the end of 2028/29, a net increase of £1.50 billion across the five-year period and an increase on the £7.02 billion that was forecast in the 2023 returns to the end of 2027/28. This despite the forecast for new private finance for 2024/25 being £45.0 million lower this year than the equivalent figure from the 2023 projections.

The additional loan finance forecast remains a substantial number and is required to fund not just new build development but also ongoing investment in existing stock. The regular communication we have across the sector in Scotland and across the rest of the UK continues to indicate that lenders and investors still consider the Scottish social housing sector to be an attractive sector for lending.

At the time of writing, the Bank of England had furthered lowered the base rate to 4.75% with only the second reduction since March 2020. Current forecasts from the Office for Budget Responsibility indicate that the base rate may have peaked at 5.25%. With inflation now returning to more typical levels, borrowers may be able to anticipate a further rate cut by the end of the year, but the Bank of England remain cautious. This is likely to affect the rates available for new borrowing, and we anticipate that RSLs will factor this into their long-term business planning assumptions and any related sensitivity analysis.

Pensions

The primary pension scheme providers for the sector remain the Scottish Housing Associations Pension Scheme (SHAPS) and the Local Government Pension Schemes (LGPS). The results of the next triennial revaluation of the SHAPS scheme are not expected until summer 2025, and we will incorporate these results into our future annual financial risk assessments.

The number of RSLs still exposed to defined benefit (DB) schemes continues to decrease, but many still carry some exposure, particularly the risk of a shortfall in investment returns. The future potential liability faced by any RSL remains uncertain and beyond their control and with financial obligations recalculated every three years, this can often lead to an increase in ongoing costs if schemes are found to be in deficit.

If, as seems likely, the forthcoming 2025 valuation indicates that the SHAPS scheme is underfunded and in deficit, then this could lead to a return to increased contributions for many, with RSLs required to make good that deficit. Governing Bodies should be aware of the potential for increased contribution levels and the associated implications. While most RSLs have proactively managed this risk, Governing Bodies should seek professional independent advice where necessary to fully understand their exposure.

Glossary

Annual Financial Statements (AFS) return	The annual return collating data from the audited annual financial statements of RSLs
Care organisation	An organisation employing greater than 50% of their FTE staff in a care role
Consumer Prices Index (CPI)	The benchmark inflation rate calculated by the Office of National Statistics (ONS) and used by the Bank of England to determine monetary policy
EBITDA MRI (Earnings before interest, tax, depreciation & amortisation, major repairs included)	[(Operating surplus + depreciation + impairment – capitalised maintenance costs) / interest payable]. A version of interest cover commonly used as a loan covenant
Energy Efficiency Standard for Social Housing (EESSH)	EESSH aims to improve the energy efficiency of social housing in Scotland. It will help to reduce energy consumption, fuel poverty and the emission of greenhouse gases
Five-Year Financial Projections (FYFP)	The annual return collating data from the 5-year financial projection submissions from RSLs
Gearing	[(Total outstanding debt – cash & cash equivalents) / net assets]. Commonly used as a loan covenant, the calculation used by SHR cannot generally be compared to covenant calculations as it does not adjust for grants held as deferred income in the Statement of Financial Position
Housing Association Grant (HAG)	Grant funding provide by the SG to part finance the development or purchase of social housing by an RSL
Interest cover	[(Net cash from operating activities + interest received) / interest paid]. Commonly used as a loan covenant, the calculation used by SHR cannot generally be compared to the covenant calculations as it is based on figures from the cash flow rather than the statement of comprehensive income
Loan Portfolio (LP) return	The annual return collating data RSLs private borrowings
Office for Budget Responsibility (OBR)	Non-departmental public body funded by the UK Treasury and established by the UK Government to provide independent economic forecasts and analysis of the public finances
Performance method	Accounting policy choice allowing release of capital grant as deferred income when related performance criteria are met. Can

	only be used where housing assets are valued using revaluation method.
Registered Social Landlord (RSL)	As registered under the Housing (Scotland) Act 2010 to provide Scottish Secure Tenancies. This does not include Local Authorities
Retail Prices Index (RPI)	RPI is another ONS inflation rate, this one including housing costs
Social Housing Net Zero Standard in Scotland (SHNZS)	This new standard will replace the planned EESSH2 standard
Stock/unit numbers	The unit numbers from the AFS return that we require each RSL to complete

Scottish Housing Regulator