Analysis of Registered Social Landlord Audited Financial Statements 2023/24

Contents

About this report

This report provides an overview of the aggregated, Audited Financial Statements (AFS) returns for the year to 31 March 2024 submitted to us by Registered Social Landlords (RSLs).

Throughout the period covered by the AFS returns, the operating environment remained difficult for RLSs, with the broader macroeconomic situation continuing to affect tenant finances and RSL's financial performance. Key factors influencing RSLs' financial performance in 2023/24 included:

- CPI inflation peaked at 11.1% in October 2022 and remained high at 8.7% in April 2023. RSLs in Scotland implemented an average rent increase in April 2023 well below 8.7%. In the 6 months to September 2023, it fell to 6.7% and by March 2024, it had fallen to 3.2%;
- the Bank of England raised its base rate from 0.75% in April 2022 to 4.25% by March 2023 to combat inflation. It then increased the rate three times in 2023, reaching 5.25% in August, the highest since April 2008, and maintained that rate for the rest of the period covered by the AFS returns;
- the impact of resource shortages on material and labour costs exacerbated by global instability;
- the increasing requirements to address the safety and quality of homes, including on energy efficiency and decarbonisation;
- maintenance contractors and house builders reporting financial viability issues which in some situations resulted in contractors going into administration.

Highlights

The aggregate financial position of RSLs weakened in 2023/24. This has reduced their financial headroom and while we are engaging with more RSLs on financial issues than before, most are still managing the financial pressures but with increasingly constrained finances. Overall, liquidity remains strong in aggregate across the sector, and RSLs have successfully raised the necessary funds to invest in both new and existing homes. However, the combination of weaker performance and record investment levels is impacting cash and cash equivalents, which have decreased for the fifth year in a row to £685m.

In total, RSLs spent a record £945m on management and maintenance which is the highest on record. Total management and maintenance cost per unit increased by 6.46% to a record high of £2,965.

At an aggregate level in 2023/24, RSLs':

- turnover increased by 5.98% to £2.11 billion;
- affordable lettings turnover rose by 5.89% to £1.86 billion, contributing 88.29% of total turnover. This includes gross rent receivable and service charges of £1.66 billion, a rise of 7.53%;
- operating costs continue to increase at a faster rate than turnover, up by 7.07% to £1.75 billion;
- planned and reactive maintenance expenditure rose at very different rates with planned increasing by 3.88% to £176.03 million and reactive increasing by 15.26% to £295.51 million;
- operating surplus after exceptional items dropped marginally by 0.87% to £364.45 million;
- affordable lettings surplus fell by 3.3% to £343.73 million as rental income and deferred grants released grew at a slower rate than the associated expenditure.
- investment in new and existing homes continued with net housing assets up by 5.50% to £16.52 billion;
- cash balances decreased by 11.78% to £685.20 million;
- cash generation from operating activities reduced marginally by 0.11% to £615.88 million;
- EBITDA MRI interest cover reduced to 199.38%, reflecting the tightening financial headroom;
- voids reduced to 1.53% but remained well above pre-pandemic level of 1.22%;
- bad debts rose to 0.72% whilst net arrears reduced to 2.62%;
- the average rent increase was below both CPI and RPI for the third year in succession; and
- continued to reduce the number of employees in defined benefit schemes.

Looking ahead

Since 31 March 2024 the complex and uncertain economic environment that RSLs operate in has remained very challenging. The Bank of England cut rates from 5.25% to 5% in August 2024, then to 4.75% in November, and to 4.5% in February 2025, their lowest in 18 months, with a "cautious" approach to future cuts. Inflation has dropped significantly from 11.1% in October 2022, the highest in 40 years. However, prices are still rising, just more slowly. The UK's annual inflation rate was 2.3% in April 2024 and 2.5% in December 2024. While it briefly met the Government's 2% target between April and December, it hasn't been sustained.

Social Landlords applied an average rent increase in 2024/25 of 6% as they balanced keeping rent as low as possible while meeting their obligations to deliver on tenant and resident safety, the quality of the homes they provide and funding the decarbonisation of homes. The Scottish Government's cap on private rented properties continued to impact the mid-market rents RSLs can charge.

Supply chain disruptions, higher costs and labour shortages continue to contribute to volatility, leading many RSLs to scale back their plans to build new homes. Some RSLs have faced unanticipated costs to assess and remediate safety issues in tenants' homes, including for RAAC and cladding. Such unexpected costs can represent a significant risk to the financial stability of an RSL.

In this context, RSLs aim to sustain service levels while investing in their current homes to enhance and preserve tenant and resident safety, meet net-zero standards, and fulfil stock quality commitments, all while continuing to invest in the construction of new homes. Information on RSL projections can be found in our Summary of Registered Social Landlord Financial Projections 2024/25 - 2028/29 | Scottish Housing Regulator published in December 2024. It is crucial for RSLs to keep adapting their business plans in response to evolving circumstances, managing their resources effectively to safeguard their financial stability, while ensuring that rents remain affordable for tenants.

Financial Review 2023/24

Statement of comprehensive income

The aggregate net surplus before taxation for the year to 31 March 2024 was £380.95 million (2022/23, £262.29 million), an increase of 45.24%.

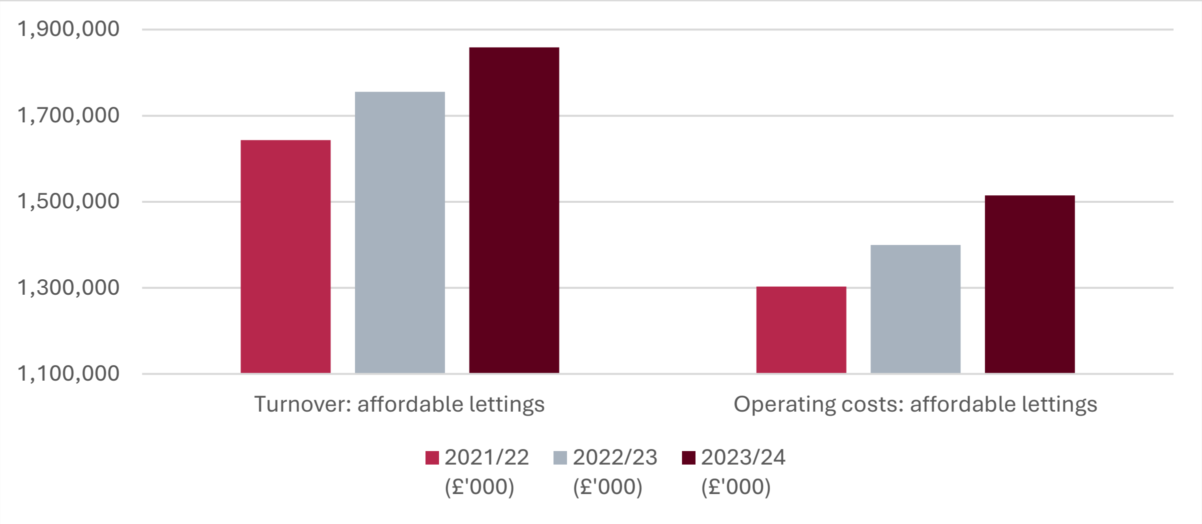
The key movements were:

- turnover increased by 5.98% to £2.11 billion (2022/23, £1.99 billion), with affordable lettings turnover increasing by 5.89% to £1.86 billion (2022/23, £1.76 billion);
- operating costs increased by 7.07% to £1.75 billion (2022/23, £1.64 billion) which includes planned and reactive maintenance cost increases of 3.88% and 15.26% respectively;
- operating surplus decreased by 0.87% to £364.45 million (2022/23, £367.64 million), the fourth year in a row that it has fallen from a peak of £392.47 million in 2019/20;
- interest payable increased by 21.49% to £245.03 million (2022/23, £201.68 million) reflecting the increased borrowing levels and interest rates payable on existing debt over the period;
- decrease in valuation of housing properties was £9.09 million (2022/23, £46.13 million), whilst reversal of previous decrease in valuation of housing properties was £245.55 million (2022/23, £100.43 million);
- the actuarial movement on pension schemes was a loss of £57.80 million (2022/23, £56.57 million loss); and
- total comprehensive income for the year increased by 57.03% to £322.97 million (2022/23, £205.67 million).

Affordable lettings activity

Figure 1 sets out total turnover and operating costs from affordable lettings for the last 3 years.

Figure 1: Analysis of affordable lettings turnover and costs



Turnover from affordable lettings increased by 5.89% to £1.86 billion (2022/23, £1.76 billion), with gross income from rents and service charges rising by 7.53% to £1.66 billion (2022/23,

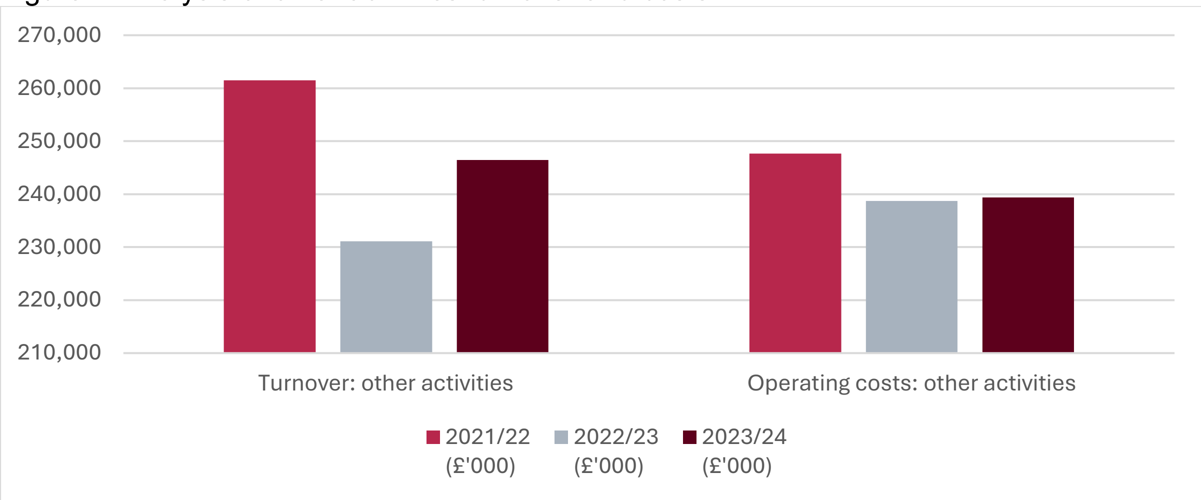
£1.54 billion) due to a combination of rent increases and new homes coming on-stream. Income lost as a result of homes being empty increased again in absolute terms by 5.09% to £25.35 million (2022/23, £24.13 million) and remains significantly above the pre-pandemic figure of £16.92 million in 2019/20. However, as a percentage of gross rents and service charges the figure continues to reduce and is now 1.53% (2022/23, 1.57%), still well above the figure for 2019/20 of 1.22%. RSLs are telling us that it remains difficult to secure contractors and materials to complete void maintenance work especially in relation to utilities re-connections. The inflationary pressures being experienced have also put considerable pressure on contractors and this has led to a number of them going into administration.

Operating costs on affordable lettings rose more quickly at 8.23% to reach £1.51 billion (2022/23, £1.40 billion). The main driver for this was the increase in planned and reactive maintenance to £471.53 million (2022/23, £425.84 million) as higher inflation levels continue to impact. Management and maintenance administration costs increased by 6.22% to £473.61 million (2022/23, £445.87 million), but bad debts fell by 4.02% to £11.68 million (2022/23, £12.17 million). Depreciation costs continue to increase as new houses come on-stream and major investment programmes are progressed and were 4.71% higher at £419.32 million (2022/23, £400.45 million). RSLs are continuing to review asset values and have recognised further impairment charges of £2.75 million (2022/23, £2.27 million).

Other activities

Figure 2 sets out total turnover and operating costs from other activities for the last 3 years.

Figure 2: Analysis of other activities turnover and costs



Turnover from other activities increased by 6.6% to £246.6 million (2022/23, £231.12 million), partially reversing the previous decrease of 11.62% from £261.50 million. Care services (consisting of care and repair, support activities and care activities) increased by 3.27% to £128.52 million (2022/23, £124.44 million) with care activities dominating this figure at £111.75 million (2022/23, £107.34 million). Two RSLs are responsible for 74.31% of the aggregate care activities turnover (2022/23, 73.44%). Overall, care services (and in particular care activities) continue to be the dominant other business activity, accounting for 52.15% of total other activities turnover (2022/23, 53.84%).

Developments for sale to RSLs and non-RSLs fell by 17.23% to £9.40 million (2022/23, £11.36 million), the lowest figure in the 9 years since FRS 102 was adopted and includes no income from sales to RSLs, the only time that this has happened over that period. This reflects the increasingly difficult development conditions including increased costs and a reducing number of contractors.

Within the other activities note, there is a single line for other activities. This includes a range of activities that are not covered by the specific headings in the Determination of Accounting Requirements that do not require separate disclosure. The figure for this increased by 19.47% to £51.76 million (2022/23, £43.3 million) representing 21.00% of the total turnover (2022/23, 18.74%). It is difficult to analyse the reasons for the changes in this figure due to there not being a requirement for separate disclosure. We will consider if any additional activities should be split out of the other activities line as part of our next consultation on the Determination of Accounting Requirements. We would anticipate this consultation being in late summer 2025 with a view to the updated version being applicable for accounting periods commencing on or after 1st January 2026.

Operating costs of other activities increased at a much lower rate of 0.27% to £239.39 million (2022/23, £238.74 million). Costs of care activities increased by 3.52% to £128.10 million (2022/23, £123.74 million) which was only marginally above the increase in turnover. This potentially reflects that RSLs have been able to negotiate care and support contracts with local authorities that more closely reflect the cost of providing the services. Operating costs for the unspecified other activities increased by 14.39% to £48.81 million (2022/23, £42.67 million) resulting in an increased operating surplus attached to these activities of £2.95 million (2022/23, £0.66 million). As no further detail is provided, it is unclear what is causing the year-on-year fluctuations.

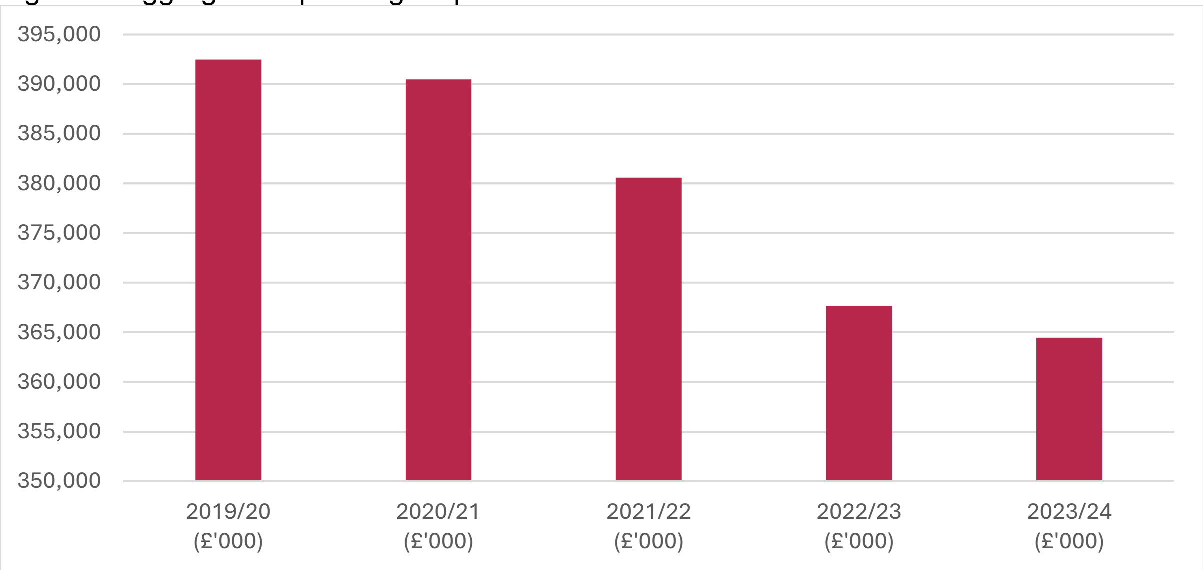
Exceptional items

Exceptional items have fallen to £4.96 million (2022/23, £10.70 million). For 2023/24, there were no exceptional items disclosed relating to transfer of engagements. The only transfer that took place was accounted for under merger accounting rather than acquisition accounting meaning that the prior year figures were restated assuming that the combined organisation had existed in the previous year. A total of £3.91 million of income was disclosed as exceptional items across three RSLs who received payments on cessation of their membership of the Strathclyde Pension Fund.

Operating surplus

The aggregate operating surplus for the year reduced by 0.87% to £364.45 million (2022/23, £367.64 million). This continues the trend that the sector has been experiencing since the COVID-19 pandemic as shown in Figure 3.

Figure 3: Aggregated operating surplus



In total, the operating surplus has fallen by 7.14% since 2019/20 despite RSLs reporting records levels of turnover. A combination of the post-pandemic recovery, the impact of BREXIT and global instability have led to unprecedented cost pressures which has tested the resilience of the sector.

Within the aggregated values, analysis of the individual operating surpluses and deficits can provide a more nuanced view of RSL performance and is summarised in Table 1.

Table 1: Analysis of individual RSL operating surplus/deficits

Operating surplus/(deficit) £'000	2020/21	2021/22	2022/23
Below 0	15	14	12
0 - 2,500	96	92	90
2,500 - 5,000	17	17	18
5,000 - 7,500	7	10	8
7,500 - 10,000	2	1	4
Above 10,000	9	9	7
Total number of RSLs	146	143	139

Of the seven RSLs who have reported operating surpluses in excess of £10 million, three use the performance method when accounting for grants. This means that the full amount of the grant is released to income when the units are completed rather than over their useful economic life. The remaining four RSLs regularly report operating surpluses of a similar magnitude.

The number of RSLs reporting operating deficits continues to fall, however, it remains high compared with the pre-pandemic years where the number was generally well below ten. This reflects the testing economic conditions that have been experienced over recent years and the higher levels of costs that are now locked in. Of the 12 RSLs who reported a deficit, five did so for the first time in at least three years, three have reported deficits in two of the last three years and four in all years.

Net surplus

The aggregated net surplus for the year increased by 45.22% to £380.82 million (2022/23, £262.24 million. The main driver for the increase was the movement in valuation of housing properties which reported a gain of £236.47 million (2022/23, gain of £54.30 million). 13 RSLs currently apply the performance method of grant accounting and therefore operate a revaluation policy for their housing assets of which six reported an overall gain in the valuation.

Offsetting this increase, was an increase in interest payable of 21.49% to £245.03 million (2022/23, £201.68 million). This reflects the increased interest rates being applied to new borrowing and to existing variable rate borrowing.

Table 2 sets out the net surplus position for individual RSLs.

Table 2: Analysis of individual RSL net surplus/deficits

Net surplus/(deficit) £'000	2020/21	2021/22	2022/23
Below 0	20	17	21
0 - 2,500	104	106	102
2,500 - 5,000	12	9	6

5,000 - 7,500	2	2	4
7,500 - 10,000	1	0	0
Above 10,000	7	9	6
Total number of RSLs	146	143	139

Of the 21 RSLs who have made a net deficit, this is the first time in at least three years for 12 of them. Four RSLs have made a net deficit in two of the last three years and five in all three years. The number of RSLs reporting net surpluses in excess of £2.5 million continues to fall as they continue to cope with the underlying increases in key elements of their cost base. The implication of reducing levels of surplus is that RSLs are finding it increasingly difficult to increase reserves which they would then use to re-invest in the existing housing stock.

Total comprehensive income

The aggregated total comprehensive income increased by 57.03% to £322.97 million (2022/23, £205.67 million). The only significant movement from the net surplus was the actuarial loss of £57.85 million (2022/23, loss of £56.57 million). This figure is now significantly more volatile due to the higher number of RSLs who are now required to recognise a pension asset or liability in the statement of financial position. Table 3 sets out the total comprehensive income for individual RSLs.

Table 3: Analysis of total comprehensive income for individual RSLs

Total comprehensive income £'000	2020/21	2021/22	2022/23
Below 0	10	33	36
0 - 2,500	96	90	88
2,500 - 5,000	25	8	5
5,000 - 7,500	5	3	4
7,500 - 10,000	1	0	0
Above 10,000	9	9	6
Total number of RSLs	146	143	139

The higher number of RSLs recording a deficit against the total comprehensive income compared to the net surplus reflects the impact of an actuarial loss. The actuarial valuation of a pension scheme is heavily influenced by the prevailing interest rates, with higher rates having a negative impact. Of the 36 RSLs who reported a deficit, this is the first time in at least three years for 16 of them, with 19 making a deficit in each of the last two years and one in each of the last three years.

11 RSLs have made a deficit against operating surplus, net surplus and total comprehensive income in 2023/24 (2022/23, 11). This figure is significantly higher than the pre-pandemic years when it was generally five or below and reflects both the higher cost bases that are now being experienced as well as the greater numbers who are now required to report an actuarial loss or gain.

Statement of financial position

The aggregated net assets for the year increased by 7.69% to £4.92 billion (2022/23, £4.57 billion). The key movements include:

- net housing assets increased by 5.50% to £16.52 billion (2022/23, £15.66 billion);

- other non-current assets increased by 6.71% to £482.84 million (2022/23, £452.49 million);
- cash and cash equivalents reduced by 11.78% to £685.20 million (2022/23, £776.72 million);
- total loans payable increased by 2.62% to £5.73 billion (2022/23, £5.54 billion);
- total deferred income increased by 3.25% to £6.76 billion (2022/23, £6.54 billion); and
- pension liability increased by 204.87% to £80.80 million (2022/23, £26.50 million).

Net rental receivables increased by 14.78% to £42.73 million (2022/23, £37.23 million). There was a corresponding increase in the arrears ratio from 2.45% to 2.62% which reflects the difficulties that many tenants were facing during the cost of living crisis. RSLs continue to provide support to tenants to help manage their costs and access relevant financial support.

A full analysis of the loans payable can be found in our publication Our annual analysis of RSLs' annual loan portfolio 2024 | Scottish Housing Regulator.

The increased pension liability of £80.80 million is discussed in more detail in the Pensions section of this report.

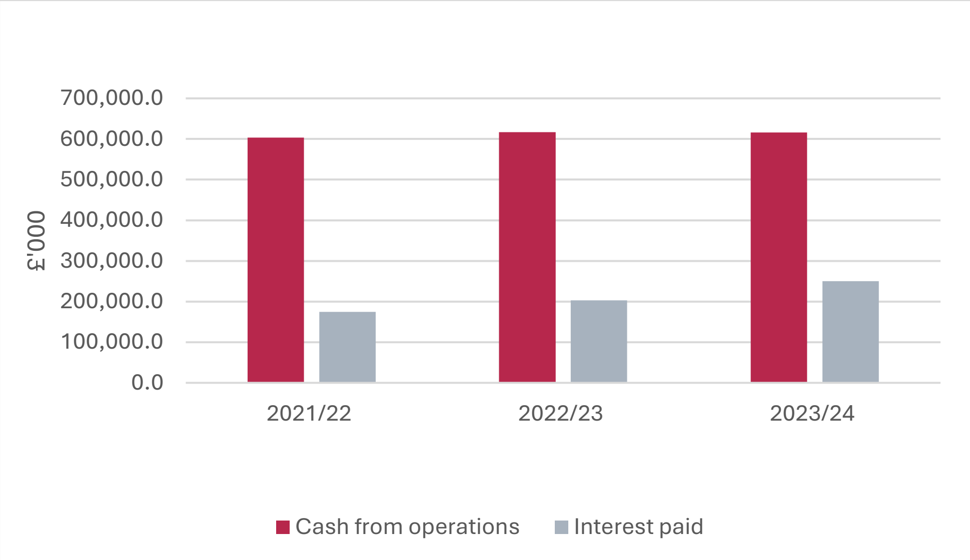
Statement of cash flow

The aggregated cash and cash equivalents at 31 March 2024 was £685.20 million, a net reduction of £91.53 million (2022/23, £776.72 million). The key movements were:

- net cash inflow from operating activities of £615.88 million (2022/23, £616.57 million);
- net cash outflow from investing activities of £648.18 million (2022/23, £725.73 million); and
- net cash outflow from financing activities of £59.89 million (2022/23, £2.03 million) which included interest paid of £250.24 million (2022/23, £202.87 million).

The slight reduction of 0.11% in net cash inflow from operating activities has reduced the capacity of RSLs to pay capital repayments and debt servicing costs by £0.69 million. The recent trend in cash generated from operations and debt servicing is shown in figure 4.

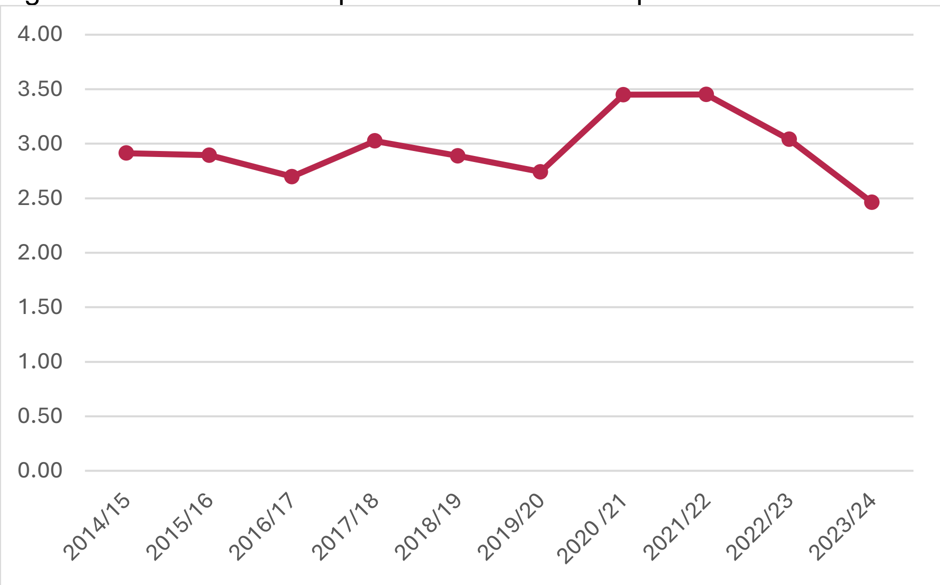
Figure 4: Analysis of interest paid and net cash from operational activities



Interest paid has increased by £47.37 million or 23.35% to £250.24 million. In addition to the level of total loans increasing by £107.95 million, the Bank of England continued to increase the base rate over the course of 2023/24. This has impacted all RSLs with variable rate loans as well as those who have drawn new finance.

The significant increase in interest paid has caused the ratio of cash from operating activities to interest paid to fall to 2.46. This is the lowest level for the ratio since the introduction of FRS 102 as can be seen in Figure 5.

Figure 5: Ratio of interest paid to net cash from operational activities



Within investing activities:

- acquisition and construction of properties was £1.05 billion (2022/23, £1.14 billion);
- property sales generated £32.04 million (2022/23, £45.04 million); and
- net capital grants received was to £378.56 million (2022/23, £389.45 million).

Key movements with financing activities included:

- interest paid of £250.24 million (2022/23, £202.87 million);
- debt drawn down of £375.79 million (2022/23, £579.27 million); and
- early repayment from re-financing of debt and associated charges of £5.82 million (2022/23, £5.12 million), of which £5.50 million relates to a single RSL (2022/23, £4.50 million).

Cost per unit and financial ratios

Over recent years, operational costs have risen at a faster rate than rental income putting constant pressure on RSLs to be as financially efficient and effective as possible. Higher levels of costs due to previous high levels of inflation along with increasing bank rates have put additional pressure on RSLs and their tenants.

Cost per unit based on operational costs and various financial ratios are measures that can help RSLs monitor their financial performance.

Management and maintenance cost per unit

Total management and maintenance cost per unit increased by 6.46% to £2,965 (2022/23, £2,785) as can be seen in Table 4.

Table 4: Analysis of management and maintenance cost per unit

	2021/22 (£)	2022/23 (£)	2023/24 (£)
Management and maintenance administration	1,348	1,424	1,486
Planned maintenance	527	541	552
Reactive maintenance	731	819	927
Total direct maintenance	1,258	1,360	1,479
Total management and maintenance	2,606	2,785	2,965

The total direct maintenance cost per unit has increased by 8.75% to £1,479 (2022/23, £1,360). The key driver for this increase has been the increase in reactive maintenance costs which rose from £819 per unit to £927 per unit. This continues the general upward trend that has been experienced over the past nine years and reflects the experiences that RSLs are telling us they are having when tendering for new contracts to undertake reactive maintenance.

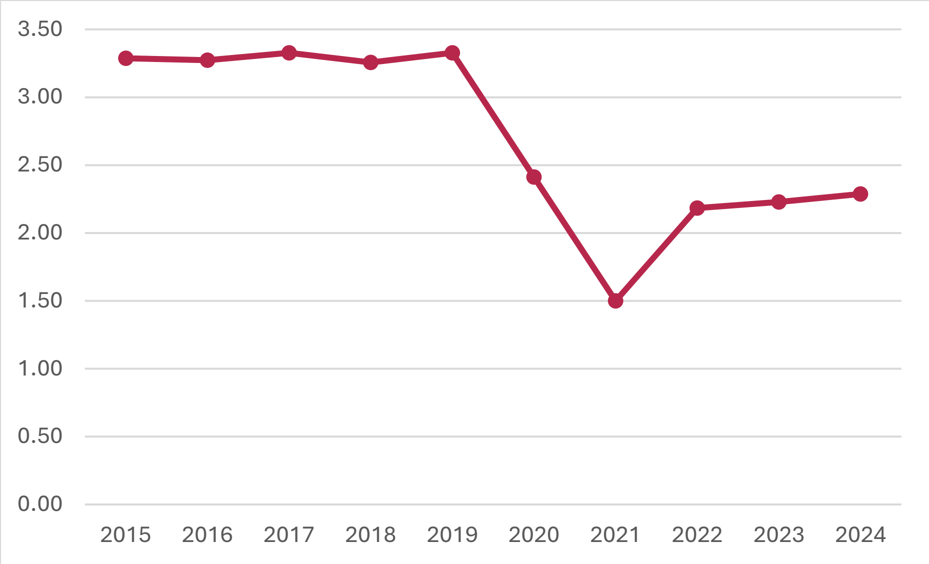
The increasing reactive maintenance cost per unit has been accompanied by an increasing requirement to undertake reactive maintenance. The aggregated number of reactive repairs undertaken as per the Annual Return on the Charter (ARC) was 758,177 in 2023/24 (2022/23, 725,038), an increase of 4.57%. The number of reactive repairs completed compared to the number of units from the AFS returns is set out in Table 4.

Table 4: Analysis of total unit numbers and reactive repairs completed

	2021/22	2022/23	2023/24
Number of units (AFS)	311,467	325,422	331,605
Total reactive repairs (ARC)	679,945	725,038	758,177
Average repairs per unit	2.18	2.23	2.29

The number of repairs has continued to rise as the sector recovers from the pandemic, but the increase in the average repairs per unit ratio has been relatively modest. Looking back further, Figure 6 shows that the ratio remains well below pre-pandemic levels. There are likely to be a number of reasons why this is the case including the number of contractors who have ceased to trade and labour and material shortages.

Figure 6: Average number of reactive repairs completed per unit



Reactive to planned maintenance ratio

This ratio measures the sum of revenue and capital planned maintenance to reactive maintenance with an assumption that the higher the ratio value the better as if more is spent on planned maintenance, it should lower the requirement for reactive spend. Table 5 shows that for the sector as a whole the figure has decreased over the last three years as reactive maintenance costs have increased.

Table 5: Analysis of the reactive to planned maintenance ratio

	2021/22	2022/23	2023/24
Reactive to planned maintenance ratio	2.01	1.73	1.60

The figures in Table 5 are only marginally below the pre-pandemic figures which suggests that the main driver for the reduction is the increase in costs rather than the number of repairs required. Considering the information at individual RSL level, 31 had a figure below 1.00 for 2023/24 (2022/23, 26) which means that they spent more on reactive maintenance than they did on planned maintenance. Of the 31, 14 had a ratio below 1.00 in all of the last three years, whilst eight did so in at least two of the three years. We will continue to monitor this through the financial risk assessment.

46 RSLs had a ratio value above 2.0 (2022/23, 47) which means that they were spending at least double the amount on planned maintenance compared to reactive maintenance.

Total staff costs

Aggregate total staff costs increased by 2.59% to £552.38 million (2022/23, £538.46 million) with a cumulative increase of 17.05% since 2019/20. Over the same period, the compound rate of CPI inflation was 21.22% based on the April inflation figures as published by the Office for National Statistics (ONS).

Table 6 sets out the average staff cost per FTE and the average staff cost per unit for the last three years.

Table 6: Analysis of average staff costs

	2021/22	2022/23	2023/24	Percentage change 2022/23 to 2023/24
Total staff costs	£495.53m	£538.46m	£552.38m	2.59%
Number of employees (FTE)	13,157	13,221	13,220	(0.00%)

Average cost per FTE	£37,663	£40,727	£41,783	2.59%
Number of units	308,457	313,024	318,780	1.84%
Average cost per unit	1,606	1,720	1,689	(1.81%)

The calculations in the table use staff costs and total number of units owned from the AFS return along with the FTE figures from the ARC. Care is required when interpreting the results as there can be differences in the FTE definition between the financial statements and the ARC returns.

Despite reducing slightly, the average cost per unit remains well above the levels that were being reported pre-pandemic. This reflects the lower number of units being developed coupled with the inflationary pressures on staff costs.

The aggregated Chief Executive emoluments excluding pension contributions increased by 5.09% to £11.87 million (2022/23, £11.29 million). There remains no obvious trend in this figure and there are a number of RSLs whose salary costs are included in the group parent rather than at an individual subsidiary level.

Arrears, voids and bad debts

Arrears, voids and bad debts are key performance indicators in assessing the efficiency and effectiveness of rent collection and property letting. Table 7 sets out the figures for the previous three years.

Table 7: Analysis of arrears, voids and bad debts

	2021/22 %	2022/23 %	2023/24 %
Voids	1.67	1.57	1.53
Bad Debts	0.69	0.80	0.72
Gross Arrears	5.57	5.02	5.21
Net Arrears	3.00	2.45	2.62

Despite increasing slightly, net arrears remain in line with long-term figures. However, net arrears take into account any provision for doubtful debt that RSLs have made. This is an annual assessment of the level of rent arrears that are likely to be uncollectable and can vary from year to year. We have only been collecting information on gross arrears in the AFS return since 2020/21, so it is difficult to draw any significant conclusions, however, the figure for 2023/24 is in line with previous years and appears to reflect the efforts being made by RSLs to proactively support their tenants during the cost of living crisis.

Voids have reduced marginally once again in 2023/24 but remain well above the pre-pandemic rates which were generally around 1.25%. We are aware that RSLs have continued to face difficulties in securing contractors to carry out void maintenance with several going into administration. There have also been long delays in securing utilities connections. However, applying the void rate to the number of units owned equates to only 4,877 units lying empty.

Earnings before interest, tax, depreciation and amortisation

Interest cover remains a key performance indicator of an RSL's ability to cover finance costs. A common version of the calculation compares interest payable to earnings before interest, tax, depreciation and amortisation net adjusted for major repairs (EBITDA MRI). Traditionally, this was the calculation that was used for an interest cover covenant. Table 8 sets out the EBITDA MRI interest cover for the last three years.

Table 8: Analysis of EBITDA MRI interest cover

	2021/22 %	2022/23 %	2023/24%
EBITDA MRI	261.48	246.22	199.38

2023/24 is the first year that the EBITDA MRI interest cover figure has fallen below 200% for the sector as a whole. The main reason for the drop is the increased level of interest payable of £243.05 million (2022/23, £201.68 million) the highest level it has been. The capitalised maintenance adjustment is also the highest it has been at £297.98 million (2022/23, £273.78 million) as RSLs continue to catch up the backlog of work from the pandemic and cope with rising costs.

We are aware that RSLs have been able to negotiate covenant waivers to ensure that a breach does not occur as a result of the increased scale of investment in stock. We are also aware that a number of RSLs have negotiated with their lenders to remove the MRI adjustment from the calculation, so the covenant is based purely on EBITDA. It is expected that this trend will continue in future years. This means that RSLs will have more flexibility in deciding when to carry out major repairs expenditure that will be capitalised as they will no longer need to consider that aspect of their expenditure when calculating their covenants.

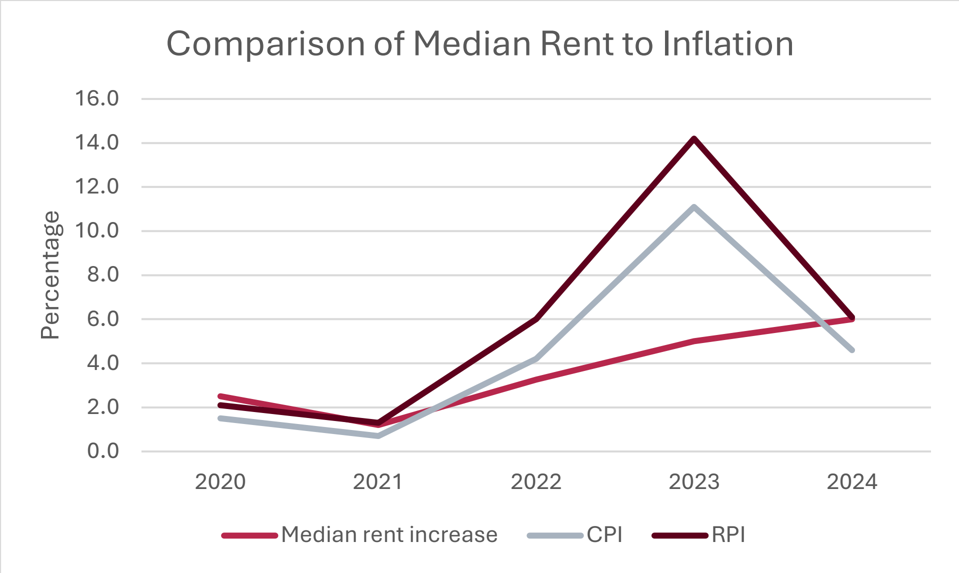
Although interest cover has reduced in 2023/24, it remains at a favourable level compared to Registered Providers in England. In its latest quarterly survey, the Regulator of Social Housing (RSH) advised that interest cover was 110% in the three months to 30 September 2024 and is forecast to be 70% for the 12 months to 30 September 2025.

Rent Increases and Inflation

Inflation as measured by CPI has been consistently above the Bank of England target rate of 2.0% since May 2021 as a result of a combination of factors including the recovery from the COVID-19 pandemic, global instability and the impact of Brexit. It has fallen to around the target rate in recent months, but the Office for Budget Responsibility (OBR) expect it to increase to 2.6% in 2025 before slowly returning to the target rate (Economic and Fiscal Outlook – October 2024).

RSLs generally use the annual inflation rate in September or October as the reference point for setting their rent increase for the following year. Figure 7 sets out the median rent increase for RSLs at 1st April compared to the previous October annual CPI and RPI rates .

Figure7: Analysis of rent increases compared to annual CPI and RPI



In 2020 and 2021, the median rent increase was broadly in line with both CPI and RPI. This changed in 2022 and 2023 as RSLs constrained their rent increases in order to help tenants cope with increasing prices and the resulting cost of living crisis. However, for 2024, rents have again increased in line with inflation. RSLs are required to consult tenants on an annual basis before setting the rent increase for the following year. They should be ensuring that they are operating in the most efficient manner in order to minimise the impact on the tenants taking into account future investment requirements.

Pensions

As at 31 March 2024, RSLs reported an aggregate pension liability of £80.80 million (2022/23, £26.50 million). They reported an actuarial loss of £57.85 million (2022/23, £56.57 million). This reflects the difficult economic conditions that pension schemes have been operating in.

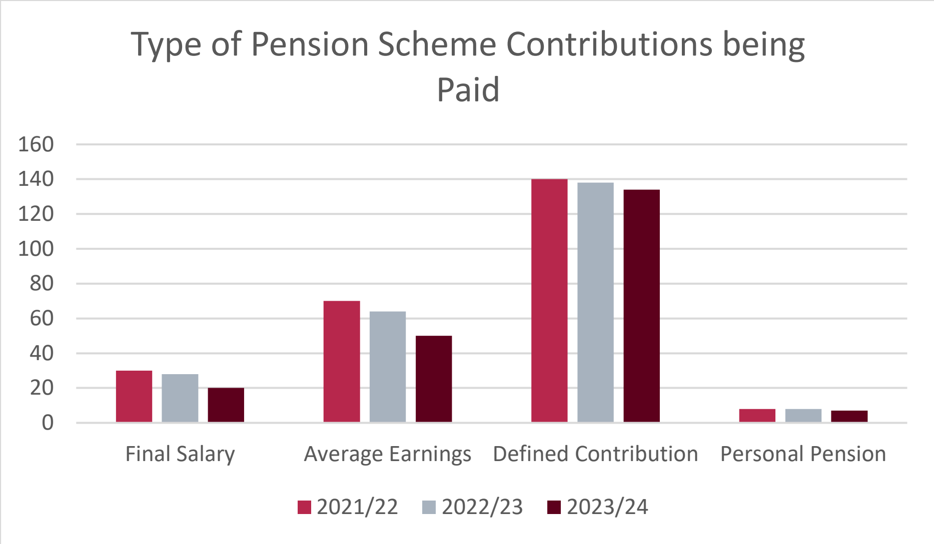
An analysis of the £80.80 million liability shows:

- 6 RSLs reported a pension asset (2022/23, 6);
- 24 RSLs reported neither no pension asset or liability (2022/23, 29); and
- 109 RSLs reported a pension liability (2022/23, 108).

The impact of the large increase in the liability has seen an increase in the median value to a liability of £0.37 million (2022/23, liability of £0.13 million), whilst the maximum liability value increased to £7.94 million (2022/23, £7.85 million). The maximum asset value increased to £13.84 million (2022/23, £12.79 million). This shows that performance across different pension schemes varied with those RSLs who are members of a local government pension scheme (LGPS) generally reporting much lower liabilities or, in some cases, assets and those who are members of the Scottish Housing Associations Pension Scheme (SHAPS) generally reporting higher levels of liabilities.

Of the 139 RSLs who submitted an AFS return for 2023/24 (2022/23, 143), 136 reported having at least one pension scheme (2022/23, 140). In total, there were 211 different schemes reported across the 136 RSLs (2022/23, 238). Figure 8 shows the changing profile of scheme membership over the last three years.

Figure 8: Analysis of the number of RSLs by pension scheme type

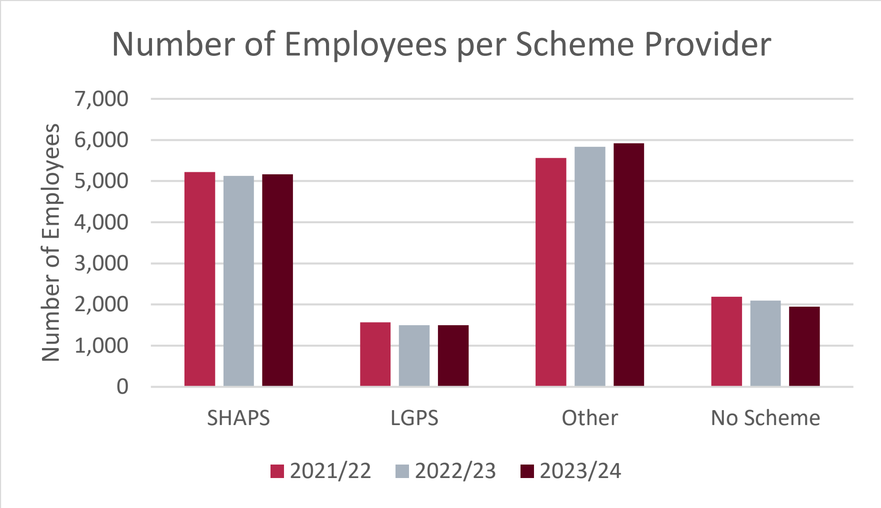


The number of RSLs who continue to offer a final salary pension scheme has dropped significantly this year to 20 (2022/23, 28), whilst those offering a career average (CARE) scheme fell to 50 (2022/23, 64). In total, defined benefit schemes now account for 33.18% of all of the schemes being offered (2022/23, 38.66%). The number of defined contribution schemes in place fell by four to 134 as a result of the transfers of engagement that took place in previous years.

Those RSLs who have offered defined benefit schemes will have retained benefits under those schemes with the associated liability and cessation costs even if they have no current defined benefit members. We are aware of several RSLs who have exited defined benefit schemes due to minimal cessation costs and in some cases they have received a payment back as the scheme was in an asset position. Employees who have transferred from a final salary to a CARE scheme continue to generate potential liabilities both due to the preserved final salary benefits and to the ongoing CARE membership. The latest triennial valuation of SHAPS is as at 30th September 2024. This is likely to show an increase in the level of the liability in the scheme and a need for deficit recovery payments to be reinstated.

Figure 9 shows the distribution of members across the main providers of pension schemes. SHAPS continues to be the dominant provider with 5,168 members (2022/23, 5,131). Despite a number of RSLs exiting LGPS, the membership level increased slightly to 1,500 as a result of additional employees in RSLs where the LGPS remains open (2022/23, 1,497). The number of non-participating employees continues to fall at 1,948 (2022/23, 2,098).

Figure 9: Analysis of number of RSL employees by pension scheme provider



In total, there were 9,935 employees who were members of employer-backed defined contribution schemes (2022/23, 9,759) and a further 653 who were paying contributions into a personal pension (2022/23, 582). This represents 72.84% of the workforce (2022/23, 71.02%) and reflects the continued movement away from offering defined benefit pension schemes, especially to new members of staff.

Sector Auditors

As noted last year, there were indications that some RSLs were finding it difficult to get tender submissions from external auditors or received no tender submissions. This trend appears to be continuing, and we will continue to monitor the situation.

There are 15 auditors active in the Scottish sector (2022/23, 15 auditors) with no new entrants. With the acquisition of French Duncan by AAB, both of whom are listed separately in the AFS return, the sector is now dominated by five firms who have an 83.45% share of all of the audits (2022/23, 4 firms with 73.43% of the audits). Six firms continue to only have one audit, with two of those only being active in the Scottish sector due to being the group auditor where the parent organisation is a Registered Provider (RP) based in England.

Internal audit does not necessarily require an independent body to carry out the audit. Large organisations tend to have their own internal audit function which is independent of the operational activities. For 2023/24, nine RSLs reported having their own internal audit function (2022/23, 10). Five of those were for RSLs within a single group (2022/23, 6) and three were for RSLs who were subsidiaries of an English RP (2022/23, 3). Only one RSL which is neither large nor part of a group of RSLs has an internal audit function (2022/23, 1).

Internal audit is a mandatory requirement of our Regulatory Framework. No RSLs reported that they did not have an internal auditor in place for 2023/24 (2022/23, 1). The RSL who reported that they did not have an internal auditor in the previous year was affected by a transfer of engagements.

We will look to understand the implications for the RSL sector through our engagement with audit firms at our annual auditor forum which was reintroduced in 2024 for the first time since the pandemic.

Procurement of auditors

According to the 2023/24 AFS returns, a number of RSLs have not carried out a full procurement exercise for either their external or internal auditors for at least seven years. However, the profile of those RSLs has changed since 2022/23.

For external audits:

- 6 RSLs reported that it was at least ten years since the last procurement exercise (2022/23, 10);
- 9 RSLs reported in the 7 to 9 years range (2022/23, 7);
- 43 RSLs reported in the 4 to 6 years range (2022/23, 42); and
- 81 RSLs reported in the 0 to 3 years range (2022/23, 84).

For internal audits:

- 8 RSLs reported that it was at least ten years since the last procurement exercise (2022/23, 12);
- 2 RSLs reported in the 7 to 9 years range (2022/23, 6);
- 43 RSLs reported in the 4 to 6 years range (2022/23, 48); and
- 86 RSLs reported in the 0 to 3 years range (2022/23, 75).

Whilst having the same audit firm in place for a number of years is not in itself an issue, a failure to follow good procurement practices is. By not having effective procurement practices in place, it becomes more difficult for RSLs to demonstrate they are achieving best value from their contracts. In an era of high costs and constrained rent increases, it is more important than ever that they are able to do this.

Appendix 1
Financial Statements 2023/24

Statement of comprehensive income

	2023/24 £'000s	2022/23 £'000s	2021/22 £'000s
Turnover	2,105,069	1,986,378	1,904,809
Operating costs	(1,754,281)	(1,638,385)	(1,550,491)
Operating surplus / (deficit), before exceptional operating items	350,788	347,994	354,318
Gain / (loss) on disposal of plant, property and equipment	8,698	8,944	6,221
Exceptional operating items	4,963	10,702	20,030
Operating surplus / (deficit)	**364,449**	**367,640**	**380,568**
Share of operating surplus / (deficit) in joint ventures and associates	(19)	0	32,286
Interest receivable & other income	22,987	14,381	6,544
Interest payable & similar charges	(245,031)	(201,682)	(183,691)
Other financing (costs) / income	(4,213)	(2,400)	(977)
Release of negative goodwill	302	605	572
Movement in fair value of financial instruments	6,009	29,443	(2,959)
Decrease in valuation of housing properties	(9,088)	(46,130)	(74,615)
Reversal of previous decrease in valuation of housing properties	245,553	100,431	2,162
Surplus / (deficit) before tax	**380,949**	**262,289**	**159,891**
Net tax (payable) / receivable	(133)	(55)	(31)
Surplus / (deficit) for year	**380,816**	**262,235**	**159,860**
Actuarial (loss) / gain in respect of pension schemes	(57,849)	(56,566)	179,109
Change in fair value of hedged financial instruments	(3)	0	374
Total comprehensive Income for the year	**322,965**	**205,669**	**339,343**

Statement of financial position

	2023/24 £'000s	2022/23 £'000s	2021/22 £'000s
Intangible assets and goodwill	7,105	6,234	5,065
Housing properties net book value	16,534,781	15,684,459	14,942,672
Negative goodwill	(10,751)	(21,302)	(21,907)
Non-current investments	216,979	194,318	167,669
Other plant, property and equipment	251,568	244,718	241,478
Investments in joint ventures and associates	7,188	7,219	19,139
Total non-current assets	**17,006,870**	**16,115,645**	**15,354,116**
Receivables due after more than 1 year	**27,217**	**27,511**	**45,892**
Investments (non-cash)	7,010	8,767	9,147
Stock and work in progress	33,671	30,510	21,113
Trade and other receivables due within 1 year	288,121	262,049	274,926
Cash and cash equivalents	685,196	776,725	892,217
Total current assets	**1,013,998**	**1,078,050**	**1,197,403**
Payables due within 1 year	(688,719)	(659,712)	(710,352)
Scottish housing grants due within 1 year	(182,223)	(157,200)	(174,415)
Other grants due within 1 year	(6,888)	(7,070)	(10,331)
Total current liabilities	**(877,830)**	**(823,983)**	**(895,098)**
Net current assets / (liabilities)	**136,168**	**254,067**	**302,305**
Payables due after more than 1 year	(5,592,827)	(5,414,274)	(5,156,212)
Provisions	(12,027)	(11,302)	(12,842)
Pension asset / (liability)	(80,797)	(26,502)	27,207
Scottish housing grants due after more than 1 year	(6,498,866)	(6,311,180)	(6,117,123)
Other grants due after more than 1 year	(67,368)	(67,001)	(64,750)
Total long-term liabilities	**(12,251,886)**	**(11,830,258)**	**(11,323,720)**
Net Assets	**4,918,369**	**4,566,965**	**4,378,592**
Share capital	17	18	18
Revaluation reserves	935,729	729,435	645,892
Restricted reserves	8,888	6,415	4,397
Revenue reserves	3,973,736	3,831,098	3,728,286
Total reserves	**4,918,369**	**4,566,965**	**4,378,592**

Statement of cash flows

	2023/24 £'000s	2022/23 £'000s	2021/22 £'000s
Net cash inflow / (outflow) from operating activities	**615,877**	**616,572**	**603,375**
Tax (paid) / refunded	**(18)**	**(17)**	**(28)**
<u>Cash flow from investing activities</u>			
Acquisition and construction of properties	(1,048,975)	(1,136,479)	(1,293,097)
Purchase of other non current assets	(40,252)	(35,878)	(36,726)
Sales of properties	32,035	45,036	33,614
Sales of other non current assets	10,184	2,894	12,182
Capital Grants received	382,606	392,819	445,238
Capital Grants repaid	(4,047)	(3,368)	(8,134)
Interest received	20,265	9,250	3,052
Net cash inflow / (outflow) from investing	**(648,183)**	**(725,727)**	**(843,871)**
<u>Cash flow from financing activities</u>			
Interest paid	(250,239)	(202,872)	(174,792)
Interest element of finance lease rental payment	(100)	(19)	(84)
Share capital received/(repaid)	332	0	2,487
Funding drawn down	375,792	579,268	522,995
Funding repaid	(180,409)	(377,531)	(196,286)
Early repayment and associated charges	(5,819)	(5,123)	(8,000)
Capital element of finance lease rental payments	0	(428)	(3,119)
Withdrawal from deposits	554	4,679	4,620
Net cash inflow / (outflow) from financing	**(59,890)**	**(2,025)**	**147,822**
Net change in cash and cash equivalents	**(92,214)**	**(111,197)**	**(92,702)**
Cash and cash equivalents at the beginning of the year	**776,725**	**889,369**	**982,694**
Opening balance adjustments	685	(1,447)	2,226
Cash and cash equivalents at the end of the year	**685,196**	**776,725**	**892,217**

Analysis – affordable lettings

	General Needs Social Housing £'000s	Supported Social Housing Accommodation £'000s	Shared Ownership Housing £'000s	Other £'000s	Total £'000s
Rent receivable net of service charges	1,404,829	136,239	11,760	9,161	1,561,988
Service charges	36,508	56,488	1,911	554	95,460
Gross income from rents and service charges	**1,441,336**	**192,727**	**13,671**	**9,714**	**1,657,448**
Less voids	(18,684)	(6,323)	(109)	(237)	(25,352)
Net income from rents and service charges	**1,422,652**	**186,404**	**13,563**	**9,477**	**1,632,096**
Grants released from deferred income	160,097	8,863	1,370	348	170,679
Revenue grants from Scottish Ministers	25,886	3,636	4	0	29,526
Other revenue grants	22,821	3,289	25	176	26,312
Total turnover from affordable letting activities	**1,631,457**	**202,193**	**14,962**	**10,002**	**1,858,613**
Management and maintenance administration costs	(420,880)	(47,276)	(3,565)	(1,884)	(473,605)
Service costs	(63,845)	(69,580)	(2,047)	(530)	(136,002)
Planned and cyclical maintenance including major repairs costs	(159,621)	(15,675)	(443)	(287)	(176,025)
Reactive maintenance costs	(269,886)	(23,787)	(961)	(874)	(295,507)
Bad debts written(off)/ back - rents and service charges	(10,523)	(1,068)	(54)	(34)	(11,679)
Depreciation of affordable let properties	(386,467)	(27,953)	(2,720)	(2,177)	(419,317)
Impairment of affordable let properties	(2,369)	(383)	0	0	(2,751)
Operating costs for affordable letting activities	**(1,313,590)**	**(185,722)**	**(9,789)**	**(5,785)**	**(1,514,887)**
Operating surplus / (deficit) for affordable letting activities	**317,866**	**16,471**	**5,173**	**4,217**	**343,726**

Analysis – other activities

	Grants from Scottish Ministers £'000s	Other revenue grants £'000s	Supporting People income £'000s	Other income £'000s	Total turnover £'000s	Operating costs £'000s	Operating surplus / (deficit) from other activities £'000s
Wider role activities	2,778	6,968	105	5,088	**14,938**	(26,105)	**(11,167)**
Care and repair	3,127	1,672	446	1,446	**6,691**	(6,408)	**283**
Investment property activities	12	0	0	19,929	**19,941**	(1,543)	**18,398**
Factoring	0	67	28	13,866	**13,961**	(14,337)	**(376)**
Support activities	146	437	5,068	4,422	**10,073**	(11,724)	**(1,651)**
Care activities	266	65,285	29,921	16,280	**111,752**	(109,966)	**1,786**
Contracted out services undertaken for RSLs	53	0	62	1,167	**1,282**	(921)	**362**
Contracted out services undertaken for other organisations	0	583	0	3,011	**3,594**	(2,848)	**747**
Developments for sale to RSLs	0	0	0	0	**0**	(59)	**(59)**
Developments and improvements for sale to other organisations	1,096	15	0	8,293	**9,404**	(9,222)	**182**
Uncapitalised development administration costs	614	1,528	0	923	**3,066**	(7,458)	**(4,392)**
Other activities	2,272	3,022	80	46,382	**51,755**	(48,805)	**2,950**
Total from other activities	**10,365**	**79,577**	**35,708**	**120,807**	**246,456**	**(239,394)**	**7,062**

Glossary

Annual Return on the Charter (ARC)	The annual return collating data on the indicators from the Scottish Social Housing Charter.
Audited Financial Statements (AFS) Return	The annual return collating specific 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.
CARE pension scheme	A career average revalued earnings (“CARE”) defined pension benefit scheme based on the average salary across each year of the scheme membership.
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.
Defined benefit (DB)	A pension scheme that pays benefits based on employee salary and where the risk lies with the employer.
Defined contribution (DC)	A pension scheme that pays benefits based on value of the pension fund that the employee pays into at the date of retirement and where the risk lies with the employee.
Earnings before interest, tax, depreciation, amortisation, major repairs included (EBITD MRI)	A version of interest cover commonly used as a loan covenant. The calculation used is [(Operating surplus + depreciation + impairment – capitalised maintenance costs) / interest payable].
Final salary (FS)	A defined benefit pension scheme that pays benefits based on the highest salary earned by an employee in the last three years of the scheme membership.
Interest paid to operating cash ratio	A version of cash flow ratio to look at the cash flow available per £1 of interest paid. The calculation used is [Net cash inflow/(outflow) from operating activities]/interest paid.
Loan Portfolio (LP) return	The annual return collating data on the private borrowings held by RSLs.
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 independent analysis of the public finances.
Performance method	Accounting policy choice allowing release of capital grant as deferred income when related performance criteria are met. This is only 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 analysis excludes Local Authorities.
Retail Prices Index (RPI)	RPI is another ONS inflation rate which includes housing costs.
Total staff costs	The total staff costs for the organisation including payments made in respect of pension deficit recovery programmes.

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