



**Scottish Housing
Regulator**

**Analysis of
Registered Social Landlord
Audited Financial Statements
2022/23**

March 2024

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About this Report

This report provides an overview of the aggregated, Audited Financial Statements (AFS) returns for the year to 31 March 2023 submitted to us by Registered Social Landlords (RSLs).

The level of economic volatility and uncertainty facing RSLs and their tenants over the reporting period remained high and several key factors continued to impact RSLs' financial performance during 2022/23, including:

- sustained high inflation and rising interest rates. Consumer Price Index (CPI) inflation peaked at 11.1% in October 2022 whilst the Bank of England increased its base rate from 0.75% in April 2022 to 4.25% at the end of March 2023;
- the impact of resource shortages on material and labour costs exacerbated by the war in the Ukraine and global shipping disruptions;
- maintenance contractors and house builders reporting financial viability issues which in some situations resulted in contractors going into administration;
- rent increases below the prevailing CPI inflation rate of 9%, with some RSLs not increasing rents in recognition of the financial hardship that was a reality for many of their tenants.

Highlights

Overall, the aggregate financial position of RSLs is weaker than it has been for some time. While RSLs withstood the difficult economic and operating conditions in 2022/23 and overall liquidity remains strong, individual RSLs have reduced financial headroom and their financial capacity to respond to further challenges is diminished. The scale of the financial challenges faced by RSLs since March 2023 remained significant, reflecting the continuing difficulties and volatility in their operating environment. The increasing financial pressures of building safety, decarbonisation and investment in current homes also reduces the financial capacity of RSLs to respond to any further unforeseen events.

At an aggregate level in 2022/23, RSLs':

- turnover increased by 4.28% to £1.99 billion;
- affordable lettings turnover rose by 6.81% to £1.76 billion, contributing 88.36% of total turnover. This includes gross rent receivable & service charges of £1.54 billion, a rise of 4.89%;
- operating costs increased by 5.67% to £1.64 billion, well below inflation during the period but at a faster rate than turnover;
- planned and reactive maintenance expenditure rose at very different rates to £169.45 million and £256.39 million respectively;
- operating surplus after exceptional items dropped marginally by 3.40% to £367.64 million;
- affordable lettings surplus rose by 4.44% to £355.62 million as rental income and deferred grants released grew at a faster rate than the associated expenditure.
- investment in new and existing homes continued with net housing assets up by 4.98% to £15.66 billion;
- cash balances decreased by 12.94% to £776.72 million;
- cash generation from operating activities rose marginally by 2.19% to £616.57 million;
- EBITDA MRI interest cover reduced to 246.22%, reflecting the tightening financial headroom;
- voids reduced to 1.57% but remained well above pre-pandemic level of 1.22%;
- bad debts rose to 0.80% whilst net arrears reduced to 2.45%, which is the lowest rate recorded since 2018/19;
- the average rent increase was below both CPI and RPI for the second year in succession. More detailed information can be found in our March 2023 report [Rent Increases by Scottish social landlords in 2023/24](#);
- continued to reduce the number of employees in defined benefit schemes.

Looking ahead

Since 31 March 2023 the complex and uncertain economic environment that RSLs operate in has remained very challenging. Social Landlords aimed for an average rent increase of no more than 6.1% for one year from March 2023, whilst the Scottish Government's cap on private rented properties impacted the mid-market rents RSLs can charge. Interest rates continued to rise, and the Bank of England base rate reached 5.25% by August 2023.

Inflation rose to more than 11% in October 2022 and while it has fallen, it remains high with increasing prices continuing to put pressure on household incomes. Supply chain disruption and labour scarcity continues to add to the volatility. One result of these combined challenges is a reduction in the development plans of some RSLs.

It is in that context, that RSLs are looking to maintain service levels and deliver investment in their existing homes to improve and maintain tenant and resident safety, meet net zero standards and stock quality commitments – as well as continuing to invest in building new homes. Information on RSL projections can be found in our [Summary of Registered Social Landlord Financial Projections: 2023/24 - 2027/28 | Scottish Housing Regulator](#) published in December 2023. It remains important that RSLs continue to adjust their business plans in response to changing circumstances to manage their resources effectively to ensure their financial well-being, while maintaining rents at a level that tenants can afford to pay.

Financial Review 2022/23

Statement of Comprehensive Income

The aggregate net surplus of the year before taxation to 31 March 2023 was £262.29 million, an increase of 64.04% from the prior year (2022 £159.89 million).

The full statement is in the Appendix and the key movements were:

- Turnover increased by 4.28% to £1.99 billion (2022 £1.90 billion), with affordable letting turnover increasing by 6.82% to £1.76 billion (2022 £1.64 billion);
- Operating costs rose by 5.67% to £1.64 billion (2022 £1.56 billion) which includes planned and reactive maintenance increases of 4.16% and 13.77% respectively. Some RSLs have advised of difficulties in securing contractors and materials to deliver the works, and significantly increased costs as well as existing contractors going into liquidation;
- Operating surplus after exceptional items decreased by 3.40% to £367.64 million (2022 £380.57 million) and is the third year in a row that the surplus has fallen from a peak of £392.47 million in 2020;
- Interest payable increased by 9.79% to £201.68 million (2022 £183.62 billion), reflecting the increased borrowing levels and lending rates over the period;
- Decrease in valuation of housing properties of £46.13 million (2022 £74.62 million), and;
- The actuarial movement on pension schemes was a loss of £(56.57) million (2022 £179.11 million gain)

Affordable Lettings Activity

Turnover for affordable lettings increased by 6.81% to £1.76 billion (2022 £1.64 billion), with gross rental income & service charges rising by 4.89% to £1.54 billion (2022 £1.47 billion), from a combination of annual rent increases and new homes coming on stream. Income lost to empty homes remained high at £24.12 million (2022 £24.61 million) and significantly higher than the pre-pandemic level of £16.98 million in 2019/20. As a percentage of gross rent & service charges, this equates to a slight reduction to 1.56% (2022 1.67%) but well above the 2019/20 rate of 1.22%. RSLs have told us that they are continuing to experience difficulties securing contractors and materials to complete empty homes maintenance works. The rapid inflation increase during the year has put considerable pressure on contractors and we are aware of several maintenance contractors in administration.

Operating costs rose at the slightly higher rate of 7.43% to £1.40 billion (2023 £1.30 billion) with the expected rise in planned and reactive maintenance to £425.84 million (2022 £388.03 million) as labour and materials costs continued to rise well above general inflation. This has resulted in some RSLs revising their maintenance programme profiles and re-assessing the costs. Management & maintenance admin costs rose by 7.21% to £445.87 million (2022 £415.87 million). Bad debts increased by 21.74% to £12.17 million (2022 £10.00 million), which was not unexpected given the increasing cost pressures on households but remains below the 2019/20 value of £13.51 million.

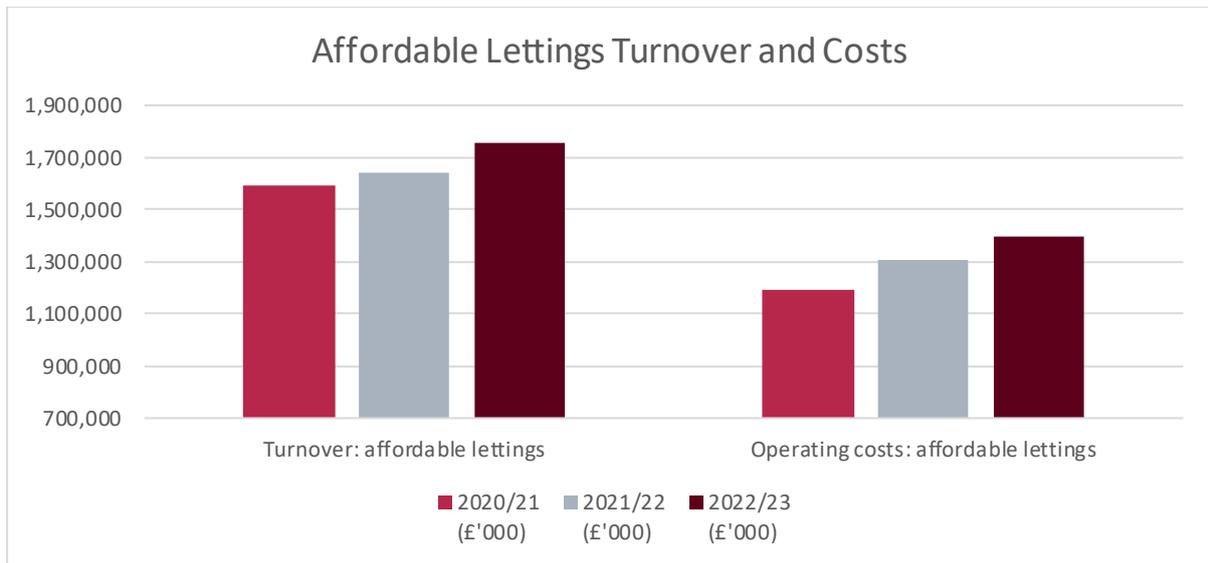


Figure 1: Analysis of Affordable Lettings Turnover & Costs (Source: AFS Returns 2022/23)

Other Activities

Turnover from other activities decreased by 11.62% to £231.12 million (2022 £261.50 million). Care services (made up of care & repair, support activities and care activities) rose by 5.09% to £124.44 million (2022 £118.41 million), where £107.34 million is care activities (2022 £99.73 million). Care services continues to be the dominant other business activity, accounting for 53.84% (2022 45.28%) of total other activities turnover.

Developments for sale to RSLs and non-RSLs decreased by 56.01% to £11.36 million (2022 £33.05 million). The prior year was unusually high as RSLs caught up on development deferred or delayed due to the pandemic with a small number of RSLs acting as lead developer. Scottish RSLs continue to be much less reliant on sales to non-RSLs than other parts of the UK.

Other activities, a range of business activities that do not have to be separately disclosed per the Determination of Accounting Requirements, fell by 33.32% to £43.32 million (2022 £64.97 million) and is equivalent to 18.74% of the total turnover (2022 24.85%). As the audited accounts do not have to define the activities within this category, it is very difficult to analyse what is included year on year. To coincide with the next update of the Housing Statement of Recommended Practice, we will discuss with RSLs and auditors to determine if there are additional activities that could be defined and if this should be included within the next consultation on the Determination.

Operating costs decreased at the much lower rate of 3.61% to £238.74 million (2022 £247.67 million). Care activities costs increased by 6.90% to £123.74 million (2022 £115.75 million) and at a much faster rate than turnover. This was expected due to rising staff costs, and we are aware of difficulties within the sector securing permanent staff and an associated increasing reliance on agency staff. Other activities costs fell by 23.01% to £42.67 million (2022 £55.42 million), resulting in a reduction in the operating surplus to £0.66 million (2022 £9.56 million). There is no further detail available, so it is unclear what causes these year-on-year fluctuations.

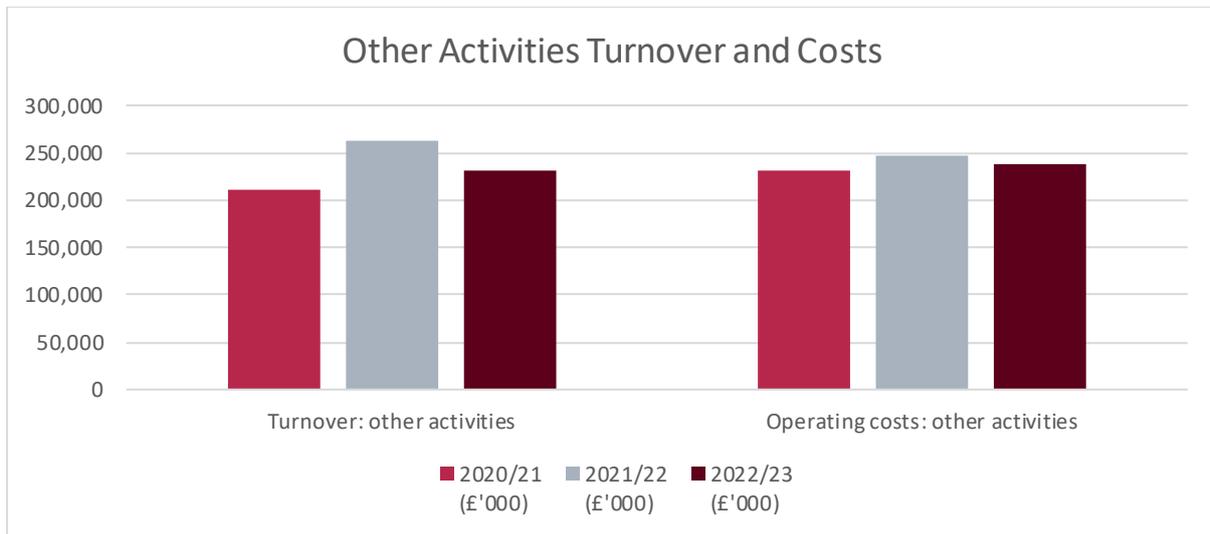


Figure 2: Analysis of Other Activities Turnover & Costs (Source: AFS Returns 2022/23)

Exceptional Items

Exceptional items of £10.70 million (2022 £20.03 million) includes a net £15.92 million gain from six RSLs involved in transfer of engagements, one of which was part of a group restructure. The balance is a mix of commercial property revaluations, one-off costs for exiting a local government pension scheme and a new provision for urgent works required.

Aggregated Operating Surplus

The aggregated operating surplus for the year reduced by 3.40% to £367.64 million (2022 £380.57 million). This was expected due to the high inflation rates during the period, particularly in relation to materials and labour, as well as ongoing supply issues.

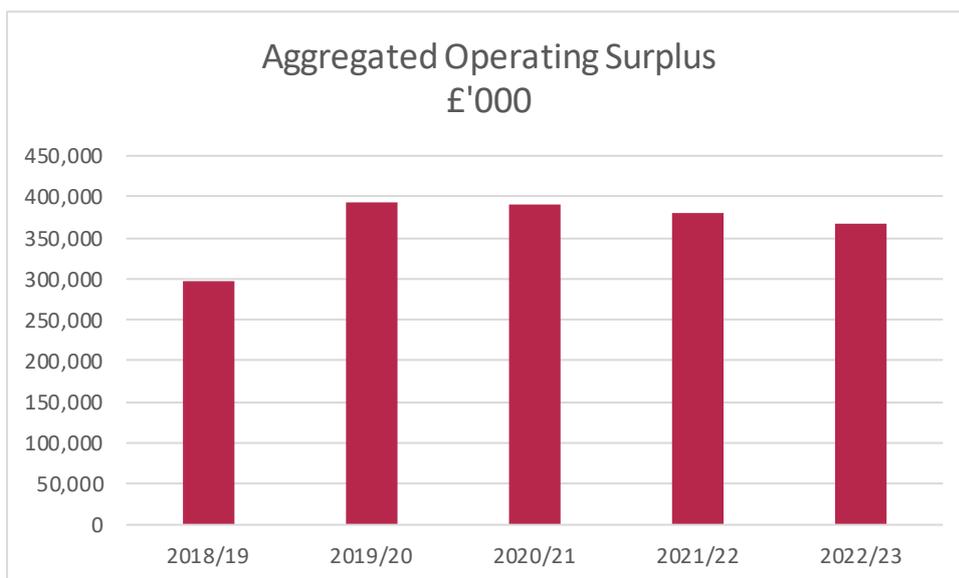


Figure 3: Aggregated Operating Surplus (Source: AFS Returns 2022/23)

Figure 3 shows that over the last four years, the aggregated surplus has remained well above the pre-pandemic 2018/19 value but has gradually declined over that period. Despite this decline, it remains well above the pre-2019/20 results with the exception of 2016/17.

Within the aggregated values, analysis of the individual operating surplus and deficits can provide a more nuanced view on RSL performance and is summarised below:

Operating surplus/(deficit) £'000	2020/21	2021/22	2022/23
Deficit (< 0)	7	15	14
0 - 2,500	101	96	92
2,500 - 5,000	27	17	17
5,000 - 7,500	10	7	10
7,500 - 10,000	2	2	1
Above 10,000	7	9	9
Total no. of RSLs	154	146	143

Table 1: Analysis of Operating Surplus/Deficits (Source: AFS Returns 2022/23)

The 9 RSLs with surpluses in excess of £10 million include 4 RSLs who regularly report surpluses of this scale. The other 5 RSLs use the performance method to release deferred housing grant i.e. grant is recognised as revenue on the completion of properties as opposed to being recognised as income in the same period to which it relates.

The RSLs reporting operating deficits decreased to 14 (2022 15) and remains high when compared with the results back to 2014/15. This may indicate that the pandemic backlogs have not yet cleared, but it may also indicate the higher costs from high inflation reducing operating margins.

A combination of group restructures and transfers of engagements resulted in the total number of RSLs reducing from 152 to 143 over the last three years. This could distort the analysis of operating surplus/(deficits) and the table below excludes those RSLs to focus on business as usual:

Operating surplus/(deficit) £'000	2020/21	2021/22	2022/23
Deficit (< 0)	2	10	10
0 - 2,500	92	94	92
2,500 - 5,000	25	14	16
5,000 - 7,500	9	6	8
7,500 - 10,000	1	2	1
Above 10,000	1	4	3
Total no. of RSLs	130	130	130

Table 2: Analysis of Extract of Operating Surplus/Deficits (Source: AFS Returns 2022/23)

This shows that the reported deficits remained steady at 10 RSLs (2022 10 RSLs) but well above the 2 RSLs reporting deficits in 2020/21. This shows the same trend as Table 1 where many RSLs reported much lower maintenance costs due to the pandemic lockdown.

Of the 10 deficits in 2022/23:

- 9 were primarily due to major increases in planned and reactive maintenance; and,
- 1 included a provision for a specific issue.

Across the three-year period in Table 2, 2 RSLs recorded deficits in all three years whilst 4 RSLs recorded deficits in the last two years. In each case, there are reasons for the deficits such as increased maintenance costs and are not a cause for concern at this time. We will, however, continue to monitor operating deficits for identifiable trends.

Aggregated Net Surplus

The aggregated net surplus for the year was £262.29 million (2022 £159.89 million). One of the main drivers of the increase was the movements in valuation of housing properties. This reported a gain of £54.30 million (2022 loss of £72.45 million) in relation to RSLs using the performance method. Other key movements included:

- Gain on disposal of property, plant & equipment £8.94 million (2022 £6.22 million);
- Share of operating surpluses/(deficits) in joint ventures & associations £0.00 million (2022 £32.29 million), where the prior year value was due to a single RSL reporting a transfer of engagements;
- Interest receivable of £14.38 million (2022 £6.54 million);
- Interest payable of £201.68 million (2022 £183.69 million);
- Movement in fair value of financial instruments was a gain of £29.44 million (2021 loss of £2.96 million), of which £20.14 million was for a single RSL for a transfer of engagements. This should have been entered in the AFS return under Exceptional Items. Excluding this value reduces the gain to £9.30 million;

Statement of Financial Position

The total aggregated net assets for the year increased to £4.57 billion (2022 £4.38 billion). The key movements include:

- Net housing assets increased by £0.74 billion to £15.66 billion (2022 £14.92 billion);
- Other non-current assets increased to £452.49 million (2022 £433.35 million);
- Receivables due after more than one year reduced to £27.51 million (2022 £45.89 million);
- Cash & cash equivalents reduced by £115.49 million to £776.72 million (2022 £892.22 million);
- Total loans payable of £3.80 billion (2022 £3.80 billion);
- Total deferred income of £6.54 billion (2022 £6.37 billion), and;
- Pension liability of £26.50 million (2022 £27.21 million asset)

Receivables due after more than one year, in prior years, was mainly due to 1 RSL with a sub-contract agreement with a local authority to undertake catch-up repairs. This balance reduced to nil as at 31 March 2023. The £27.51 million balance consists of 12 RSLs with inter-company loans to subsidiaries, where 3 RSLs account for £21.01 million or 76.39% of the total balance.

Net rental receivables reduced to £37.23 million (2022 £43.32 million) whilst the net arrears percentage reduced to 2.45% (2022 3.0%). This has fallen to the pre-pandemic 2020 rate of 2.45%, despite the financial difficulties faced by both RSLs and tenants with high inflation and energy costs. This does indicate the focus by RSLs on arrears and the support offered to help tenants manage their costs and access relevant financial support.

Analysis of the total loans payable as at 31 March 2023 is detailed within our 31 October 2023 publication [Annual Loan Portfolio Returns 2023](#).

There was an aggregated pension liability of £26.50 million compared with last year's asset of £27.21 million. This is discussed in more detail in the [Pensions](#) section of this report.

Statement of Cash Flow

The aggregated cash & cash equivalents as at 31 March 2023 was £776.72 million, a net reduction of £115.49 million (2022 £892.22 million). The key movements were:

- Net cash inflow from operating activities of £616.57 million (2022 £603.38 million);
- Net cash outflow from investing activities of £725.73 million (2022 £843.87 million);

- Net cash (outflow)/inflow from financing £(2.02) million (2022 £147.82 million);
- Interest paid £202.87 million (2022 £174.79m)

The modest 2.19% increase in net cash inflow from operating activities has increased the capacity of RSLs to pay capital repayments & debt servicing costs by a further £13.20 million. The recent trend in cash generated from operations and debt servicing is shown in the chart below:

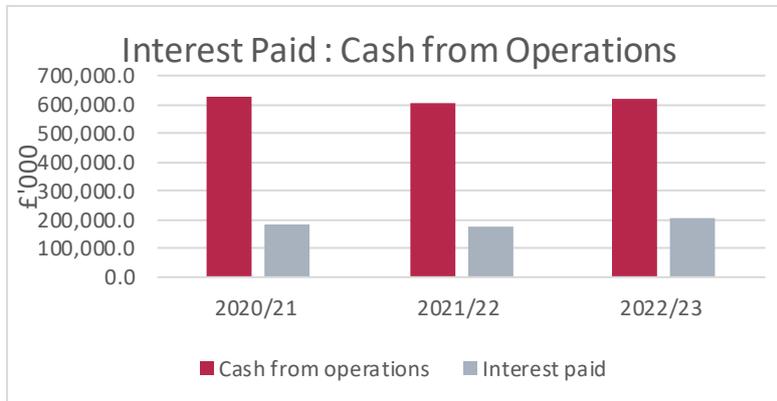


Figure 4: Analysis of Interest Paid & Net Cash from Operational Activities (Source: AFS Returns 2022/23)

Interest paid increased by £28.08 million or 16.06% to £202.87 million, despite the total loans repayable remaining essentially unchanged at £3.80 billion. The rapid rise in the Bank of England base rate during the year impacted those RSLs with variable rate loans. More information on this is in our published report [Annual Loan Portfolio Returns 2023](#).

The significant increase in interest paid caused the ratio of cash from operating activities to each £1 of interest paid to fall to 3.04 (2022 3.45), the first reduction since 2020. Despite this, the ratio remains above the values for 2015 to 2020 inclusive and continues to be a source of assurance for lenders and other key stakeholders in the sector.

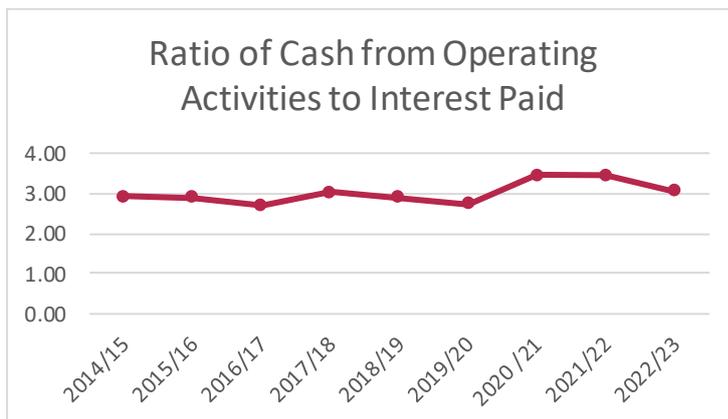


Figure 5: Ratio of Interest Paid & Net Cash from Operational Activities (Source: AFS Returns 2022/23)

Within investing activities:

- Acquisition & construction of properties reduced to £1.14 billion (2022 £1.29 billion);
- Property sales generated £45.04 million (2022 £33.61 million), of which £10.95 million was a single RSL (2022 £0.0 million);
- Net capital grants received fell to £389.45 million (2022 £437.10 million);

Key movements in financing activities included:

- Interest paid £202.87 million (2022 £174.79 million);
- Debt drawn down of £579.27 million (2022 £523.00 million);

- Early repayment from re-financing of debt & associated charges £5.12 million (2022 £8.00 million) for 4 RSLs (2022 14 RSLs), of which £4.50 million was a single RSL.

Cost per Unit & Financial Ratios

Operational costs often increase at a faster rate than rental income, putting constant pressure on RSLs to be as financially efficient and effective as possible. The high inflation & bank base rates during 2022/23 put additional pressure on RSLs and their tenants.

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

Management & Maintenance Costs per Unit

Total management & maintenance costs rose by 6.87% to £2,785/unit (2022 £2,606/unit) as summarised in the table below:

	2020/21 £	2021/22 £	2022/23 £
Management & maintenance administration	1,302	1,348	1,424
Planned maintenance	455	527	541
Reactive maintenance	603	731	819
Total direct maintenance	1,058	1,258	1,360
Total management & maintenance	2,360	2,606	2,785

Table 3: Analysis of Cost per Unit (Source: AFS Returns 2022/23)

The total direct maintenance costs increased to £1,360/unit (2022 £1,258/unit) where the key driver was the increase in reactive maintenance from £731/unit to £819/unit. Since 2015, reactive maintenance cost per unit has increased year on year - except for 2021 when work was limited by the pandemic lockdowns.

Per the 2022/23 ARC returns, the aggregated number of reactive repairs completed was 725,038 (2022 679,945) and remains well above the pandemic levels. A summary of reactive repairs completed, and total number of units is summarised below:

	2020/21	2021/22	2022/23
Number of units (AFS)	307,361	311,467	325,422
Total reactive repairs (ARC)	460,779	679,945	725,038
Average repairs per unit	1.51	2.18	2.23

Table 4: Analysis of annual unit numbers and reactive repairs completed (Source: AFS Returns 2022/23 & ARC 2022/23)

As expected, average repairs per unit have risen post-pandemic but at a relatively modest rate. There is insufficient data to analyse this further but extending the analysis back to 2015 shows the average number of repairs per unit remains well below pre-pandemic levels.

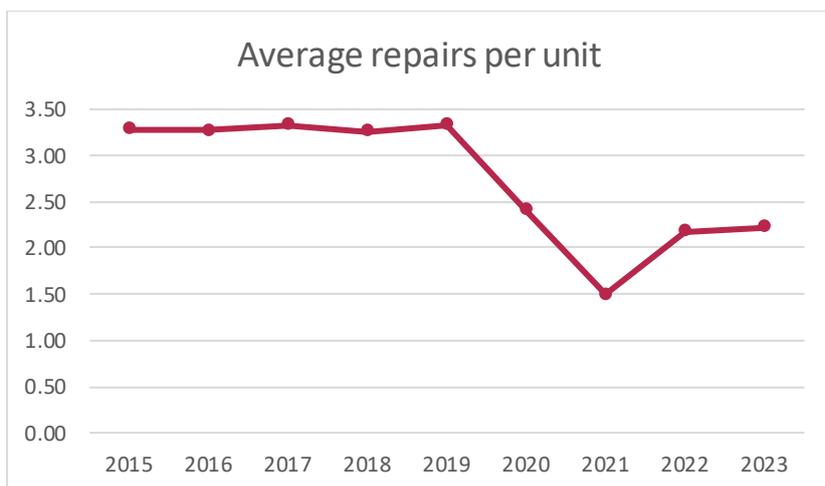


Figure 6: Average reactive repairs completed per unit (Source: AFS Returns 2022/23 & ARC 2022/23)

Ratio of Reactive to Planned Maintenance

The trend noted in prior years continues with the 50%-75% band having the greatest number of RSLs at 45 (2022 39 RSLs) followed by the 25%-50% band with 43 RSLs (2022 28 RSLs).

There has, however, been a change in the number of RSLs in the greater than 100% and 50%-100% bandings:

- 24 RSLs have a ratio greater than 100% (2022 47), the lowest value since 2019/20 and likely reflects post-pandemic catch up repairs have been completed.
- Only 5 RSLs have a ratio exceeding 200% (2022 12).
- 43 RSLs are in the range 25-50% (2022 28), 45 RSLs in the 50%-75% range (2022 39) and 22 RSLs in the 75%-100% range (2022 28)
- 67 RSLs have a ratio in the range 50%-100% (2022 67), where 22 RSLs are in the range 75%-100% (2022 28)

A total of 12 RSLs (2022 10 RSLs), of which 4 RSLs exceed 100% for at least four years in succession. We will continue to monitor the position and discuss the business rationale with the relevant RSLs.

Aggregated Total Staff Costs

Total staff costs increased by 8.66% to £538.46m (2022 £495.53m) with a cumulative increase over the seven years from 2016/17 of 27.05%. This is significantly higher than the 3.84% increase in 2021/22 but was well below the average CPI and RPI rates for the year per the [Office of Budget Responsibility \(OBR\) November 2023 supplementary economy table 1.7](#).

Staffing rationalisations within RSLs and intervention costs also need to be taken into consideration as a result of transfers of engagement during the period.

	2020/21	2021/22	2022/23	% Change 2021/22 to 2022/23
Staff costs	£477.19m	£495.53m	£538.46m	8.66%
Employees (FTE)	13,029	13,157	13,221	0.49%
Average cost per FTE	£36,625	£37,692	£40,728	8.05%

Table 5: Analysis of Average Staff Cost per Unit (Source: AFS Returns 2022/23 & ARC Returns 2022/23 for FTE)

The calculations above use staff costs per the AFS return and employee FTE per the Charter. Care is needed when interpreting results as there can be differences in the FTE definition between the AFS and Charter returns.

The aggregate staff cost per unit rose by 7.10% to £1,720 (2022 £1,606) and is well above the 2.29% and 0.6% increases reported in the 2021/22 and 2020/21 respectively. This is still below the average inflation rates for the year and the 8.66% rise in total staff costs.

The aggregated CEO excluding pension contributions rose by 3.88% to £11.29 million (2022 £10.87 million) and is the first increase in two years. There is no obvious trend, and this includes a number of RSLs whose salary costs are in the group parent and not the subsidiary.

Arrears, Voids & Bad Debts

Arrears, voids and bad debts are key performance indicators in assessing the efficiency and effectiveness of rent collection and property letting.

	2020/21 %	2021/22 %	2022/23 %
Voids	1.79	1.67	1.56
Bad Debts	0.80	0.69	0.80
Gross Arrears	5.36	5.57	5.02
Net Arrears	2.79	3.00	2.45

Table 6: Analysis of Operational Ratios (Source: AFS Returns 2022/23)

Net arrears reduced back to the pre-pandemic level of 2.45%. This is despite the high inflation levels during the period where the cost of living disproportionately impacted those on lower incomes. This appears to reflect the efforts by RSLs to proactively support their tenants e.g. helping them to access all the financial support they would be eligible for. There are only three years of data for gross arrears, but this follows a similar trend to net arrears.

Voids reduced marginally but remain well above the pre-pandemic rates of 1.22% - 1.24%. We are aware that RSLs have continued to face difficulties securing contractors, with several going into administration as well as some long delays securing utilities connections. Brexit continues to impact on labour availability, supply chain and material cost inflation.

Earnings before Interest & Tax

Interest cover remains a key performance indicator of RSLs ability to cover finance costs.

	2020/21 %	2021/22 %	2022/23 %
EBITDA MRI (%)	284.87	261.39	246.22

Table 7: Analysis of Earnings Before Interest & Tax (Source: AFS Returns 2022/22)

During 2020/21, the pandemic resulted in a marked drop off in both development and maintenance expenditure, which increased the ratio as operating profits rose. This was partially reversed during 2021/22 as RSLs started to catch up of delayed and deferred maintenance. At that time, some RSLs secured waivers on their covenant thresholds to accommodate the increased scale of investment in existing stock. During 2022/23, the impact of high inflation and the increased lending rates caused the ratio to fall. We are aware of a number of RSLs who have negotiated their covenant from EBITDA MRI to EBITDA to reduce the impact of rising costs and the scale of investment in existing stock. We anticipate this trend to continue in future years.

Although the interest cover has reduced, it remains at a favourable level and is well above the 2018/19 rate of 233.26%. Unlike Registered Providers in England, RSLs are not reliant on asset sales which can materially affect EBITDA values year on year.

Rent Increases & Inflation

In November 2023, the Office of Budget Responsibility (“OBR”) published their updated Economic & Fiscal Outlook. This reported that CPI:

- increased from 4.0% to 10.1% in 2022/23;
- was projected to reduce to 5.5% in 2023/24

When compared with the average RSL rent increase, there is a very marked change from 2022 onwards:

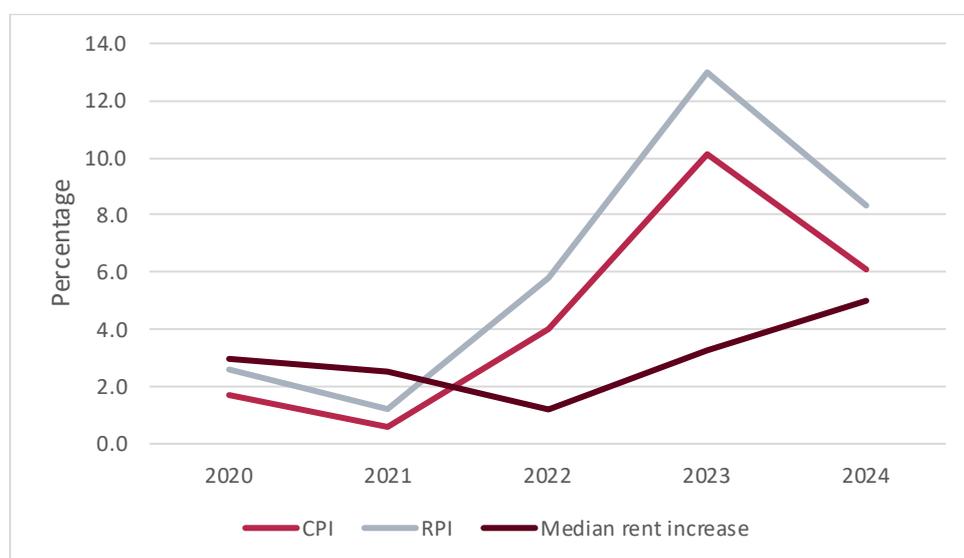


Figure 7: Analysis of Rent Increases (Source: ARC Returns) & Published CPI & RPI (Source: OBR Economic & Fiscal Outlook November 2023)

In March 2023, we published our analysis of [Rent Increases by Scottish social landlords in 2023/24](#) which stated an RSL average rent increase of 5.34%. This is still below CPI but the gap narrowed - the RSL median has risen from 3.24% to 5.43% but remains below the CPI rate of 6.09%. The Office of National Statistics also recently published that CPI was 4.0% in January 2024.

Pensions

As at 31 March 2023, there was a pension liability of £26.50 million (2022 £27.21 million asset). The pension schemes generated an actuarial loss during the year of £56.57 million compared with an actuarial gain of £179.11 million in the prior year.

An analysis of the £26.50 million net liability reveals:

- 6 RSLs with a pension scheme asset (2021/22 5 RSLs)
- 29 RSLs had no pension asset or liability (2021/22 52 RSLs)
- 108 RSLs had a pension liability (2021/22 84 RSLs)

The impact of the actuarial gain increased the median liability value to £0.13 million (2022 £0.02 million) and the peak liability value has also reduced to £7.85 million (2022 £8.35 million). The maximum asset value has also reduced to £12.79 million (2022 £58.07 million) which is mainly due to one RSL whose asset value reduced by £55.67 million.

The analysis of the pension scheme types shows the number of RSLs with final salary schemes reduced to 28 (2022 30 RSLs) and those in career average (“CARE”) schemes reduced to 64 (2022 70 RSLs) i.e. 92 RSLs are in defined benefit schemes (2022 100 RSLs).

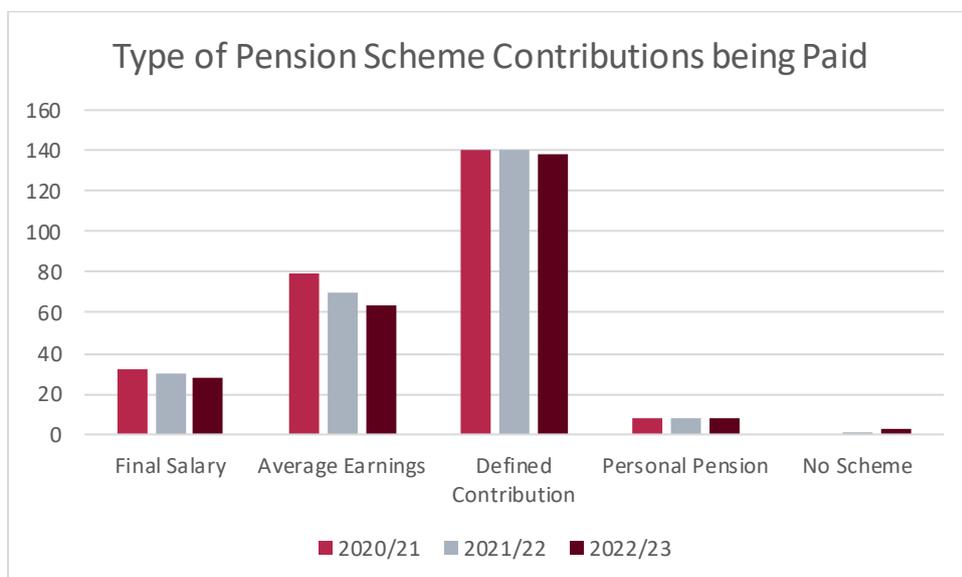


Figure 8: Analysis of the Number of RSLs by Pension Scheme Type (Source: AFS Returns)

There continues to be an overall reduction in the number of RSLs with defined benefit schemes but this was the first year where defined contribution reduced to 138 RSLs (2022 140 RSLs). This was due to two transfers of engagement and as the RSLs were not de-registered at the date of the return, this resulted in the number of RSLs with no scheme increasing to 3 (2022 1 RSL).

Those previously in defined benefit schemes will have retained their benefits under the schemes and these RSLs still have the associated liability and cessation costs. We are aware of several RSLs who have exited defined benefit schemes for defined benefit schemes due to minimal cessation costs. Employees who have transferred from a final salary to an average earnings scheme continue to generate future liabilities as preserved benefits so the risks to the RSL are only partially mitigated.

The analysis of contributing members by provider shows a slight decrease in SHAPS to 5,131 (2022 5,222) and an expected reduction in LGPS to 1,497 (2022 1,568). Defined

contribution members rose to 5,835 (2022 5,560). The number of non-participating employees decreased to 2,098 employees (2022 2,189 employees).

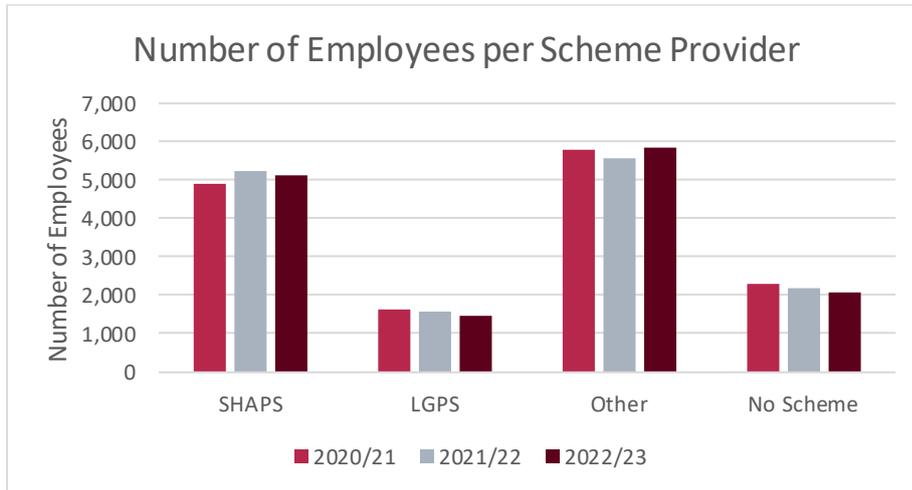


Figure 9: Analysis of the Number of RSL Employees by Pension Scheme Type (Source: AFS Returns)

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 seems to be continuing and we will continue to monitor the situation.

There are 16 auditors active in the Scottish sector (2022 15 auditors) with 1 new entrant and continues to be dominated by 4 audit firms. Their share of the sector has reduced slightly to 69.93% of all the audits (2022 73.28%). Of the 16 firms, 6 auditors have only 1 audit (2022 5) and no auditors have 2 audits, the same as 2021/22.

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.

In 2023, 10 audits were classified as “Internal” (2022 11 audits), of which 6 were for RSLs within a single group (2022 7 audits). Of the remaining 4 audits, 3 were for RSLs that are subsidiaries of an English parent (2022 3 audits). Only 1 RSL which is neither large nor part of a group has an internal audit function (2022 1 RSLs).

We will look to understand the implications for the RSL sector with auditors at the next auditor forum.

Procurement of Auditors

Based on the recent AFS returns, a significant number of RSLs have not procured services for seven years or more. The profile, however, has changed:

For external audits:

- 10 RSLs reported it was at least 10 years since the last procurement exercise (2022 8 RSLs);
- 7 RSLs reported in the 7-9 years range (2022 13 RSLs);
- 42 RSLs reported in the 4-6 years range (2022 45 RSLs), and;
- 84 RSLs reported in the 0-3 years range (2022 80 RSLs).

For internal audits:

- 12 RSLs reported it was at least 10 years since the last procurement exercise (2022 12 RSLs);
- 6 RSLs reported in the 7-9 years range (2022 10 RSLs);
- 48 RSLs reported in the 4-6 years range (2021 39 RSLs), and;
- 75 RSLs reported in the 0-3 years range (2022 85 RSLs).

We have identified a number of RSLs where the data needs clarification when procurements resulted in the same audit firm being awarded the contract e.g. Audit Firm X has been the auditor for five years, wins the tender and the AFS return shows Audit Firm X is unchanged but the number of years since the last procurement is six years and not one year.

We will be continue liaising with the sector to clarify how to record the data in the AFS Return.

Appendix Financial Statements 2022/23

Statement of Comprehensive Income

	2022/23 £'000s	2021/22 £'000s	2020/19 £'000s
Turnover	1,986,378	1,904,809	1,804,911
Operating costs	(1,638,385)	(1,550,491)	(1,421,729)
Operating surplus / (deficit), before exceptional operating items	347,994	354,318	383,182
Gain / (loss) on disposal of plant, property and equipment	8,944	6,221	2,159
Exceptional operating items	10,702	20,030	5,156
Operating surplus / (deficit)	367,640	380,568	390,497
Share of operating surplus / (deficit) in joint ventures and associates	0	32,286	310
Interest receivable & other income	14,381	6,544	9,573
Interest payable & similar charges	(201,682)	(183,691)	(213,950)
Other financing (costs) / income	(2,400)	(977)	(1,996)
Release of negative goodwill	605	572	646
Movement in fair value of financial instruments	29,443	(2,959)	3,433
Decrease in valuation of housing properties	(46,130)	(74,615)	(216)
Reversal of previous decrease in valuation of housing properties	100,431	2,162	121,568
Surplus / (deficit) before tax	262,289	159,891	309,864
Net tax (payable) / receivable	(55)	(31)	(44)
Surplus / (deficit) for year	262,235	159,860	309,820
Unrealised surplus / (deficit) on revaluation of housing properties	0	0	0
Actuarial (loss) / gain in respect of pension schemes	(56,566)	179,109	(144,848)
Change in fair value of hedged financial instruments	0	374	76
Total comprehensive Income for the year	205,669	339,343	165,049

Statement of Financial Position

	2022/23 £'000s	2021/22 £'000s	2020/21 £'000s
Intangible assets and goodwill	6,234	5,065	4,912
Housing properties net book value	15,684,459	14,942,672	14,083,014
Negative goodwill	(21,302)	(21,907)	(22,479)
Non-current investments	194,318	167,669	149,190
Other plant, property and equipment	244,718	241,478	236,282
Investments in joint ventures and associates	7,219	19,139	15,313
Total non-current assets	16,115,645	15,354,116	14,466,232
Receivables due after more than 1 year	27,511	45,892	65,637
Investments (non-cash)	8,767	9,147	168,956
Stock and work in progress	30,510	21,113	36,351
Trade and other receivables due within 1 year	262,049	274,926	208,848
Cash and cash equivalents	776,725	892,217	990,623
Total current assets	1,078,050	1,197,403	1,404,778
Payables due within 1 year	(659,712)	(710,352)	(687,605)
Scottish housing grants due within 1 year	(157,200)	(174,415)	(165,801)
Other grants due within 1 year	(7,070)	(10,331)	(3,812)
Total current liabilities	(823,983)	(895,098)	(857,217)
Net current assets / (liabilities)	254,067	302,305	547,561
Payables due after more than 1 year	(5,414,274)	(5,156,212)	(4,850,533)
Provisions	(11,302)	(12,842)	(23,656)
Pension asset / (liability)	(26,502)	27,207	(174,608)
Scottish housing grants due after more than 1 year	(6,311,180)	(6,117,123)	(5,904,701)
Other grants due after more than 1 year	(67,001)	(64,750)	(75,519)
Total long-term liabilities	(11,830,258)	(11,323,720)	(11,029,017)
Net Assets	4,566,965	4,378,592	4,050,413
Share capital	18	18	19
Revaluation reserves	729,435	645,892	725,508
Restricted reserves	6,415	4,397	5,423
Revenue reserves	3,831,098	3,728,286	3,319,463
Total reserves	4,566,965	4,378,592	4,050,413

Statement of Cash Flows

	2022/23 £'000s	2021/22 £'000s	2020/21 £'000s
Net cash inflow / (outflow) from operating activities	616,572	603,375	626,610
Tax (paid) / refunded	(17)	(28)	(43)
<u>Cash flow from investing activities</u>			
Acquisition and construction of properties	(1,136,479)	(1,293,097)	(907,649)
Purchase of other non-current assets	(35,878)	(36,726)	(19,774)
Sales of properties	45,036	33,614	19,046
Sales of other non-current assets	2,894	12,182	2,329
Capital Grants received	392,819	445,238	456,085
Capital Grants repaid	(3,368)	(8,134)	(3,070)
Interest received	9,250	3,052	4,424
Net cash inflow / (outflow) from investing	(725,727)	(843,871)	(448,610)
<u>Cash flow from financing activities</u>			
Interest paid	(202,872)	(174,792)	(181,626)
Interest element of finance lease rental payment	(19)	(84)	(43)
Share capital received/(repaid)	0	2,487	0
Funding drawn down	579,268	522,995	423,283
Funding repaid	(377,531)	(196,286)	(256,181)
Early repayment and associated charges	(5,123)	(8,000)	(5,931)
Capital element of finance lease rental payments	(428)	(3,119)	(204)
Withdrawal from deposits	4,679	4,620	2,686
Net cash inflow / (outflow) from financing	(2,025)	147,822	(18,014)
Net change in cash and cash equivalents	(111,197)	(92,702)	159,942
Cash and cash equivalents at the beginning of the year	889,369	982,694	830,321
Opening balance adjustments	(1,447)	2,226	360
Cash and cash equivalents at the end of the year	776,725	892,217	990,623

Analysis of 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	1,313,331	124,914	11,600	11,167	1,461,462
Service charges	31,159	44,442	2,274	2,099	79,974
Gross income from rents and service charges	1,344,489	169,356	13,874	13,716	1,541,436
Less voids	(17,653)	(6,055)	(98)	(319)	(24,125)
Net income from rents and service charges	1,326,836	163,301	13,776	13,398	1,517,311
Grants released from deferred income	182,144	9,056	1,474	341	193,016
Revenue grants from Scottish Ministers	15,159	3,222	3	26	18,410
Other revenue grants	22,834	3,390	17	282	26,524
Total turnover from affordable letting activities	1,546,973	178,969	15,270	14,048	1,755,260
Management and maintenance administration costs	(394,538)	(43,611)	(4,062)	(3,662)	(445,873)
Service costs	(47,740)	(61,761)	(1,263)	(2,282)	(113,046)
Planned and cyclical maintenance including major repairs costs	(153,523)	(13,919)	(407)	(1,602)	(169,450)
Reactive maintenance costs	(232,892)	(20,466)	(1,142)	(1,887)	(256,388)
Bad debts written(off)/ back - rents and service charges	(10,847)	(1,158)	(65)	(98)	(12,168)
Depreciation of affordable let properties	(368,319)	(26,166)	(3,122)	(2,846)	(400,453)
Impairment of affordable let properties	(2,266)	0	0	0	(2,266)
Operating costs for affordable letting activities	(1,210,125)	(167,080)	(10,062)	(12,378)	(1,399,645)
Operating surplus / (deficit) for affordable letting activities	336,848	11,890	6,361	1,670	355,616

Analysis of 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	2,650	6,363	120	4,701	13,834	(32,135)	(18,302)
Care and repair	3,487	1,599	72	1,431	6,589	(6,386)	203
Investment property activities	39	0	0	18,705	18,744	(2,069)	16,675
Factoring	29	73	0	11,206	11,308	(11,579)	(272)
Support activities	128	1,001	5,151	4,228	10,508	(11,043)	(535)
Care activities	515	61,648	28,883	16,297	107,344	(106,308)	1,036
Contracted out services undertaken for RSLs	36	46	0	2,262	2,344	(2,125)	219
Contracted out services undertaken for other organisations	0	0	0	3,418	3,418	(3,039)	378
Developments for sale to RSLs	0	0	0	1,928	1,928	(2,152)	(224)
Developments and improvements for sale to other organisations	2,134	0	0	7,299	9,433	(8,897)	535
Uncapitalised development administration costs	865	228	0	1,258	2,350	(10,340)	(7,990)
Other activities	2,120	4,598	139	36,463	43,321	(42,666)	655
Total from other activities	12,002	75,555	34,365	109,196	231,118	(238,740)	(7,622)

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.
EBITDA MRI (Earnings before interest, tax, depreciation, amortisation, major repairs included)	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.



Scottish Housing
Regulator