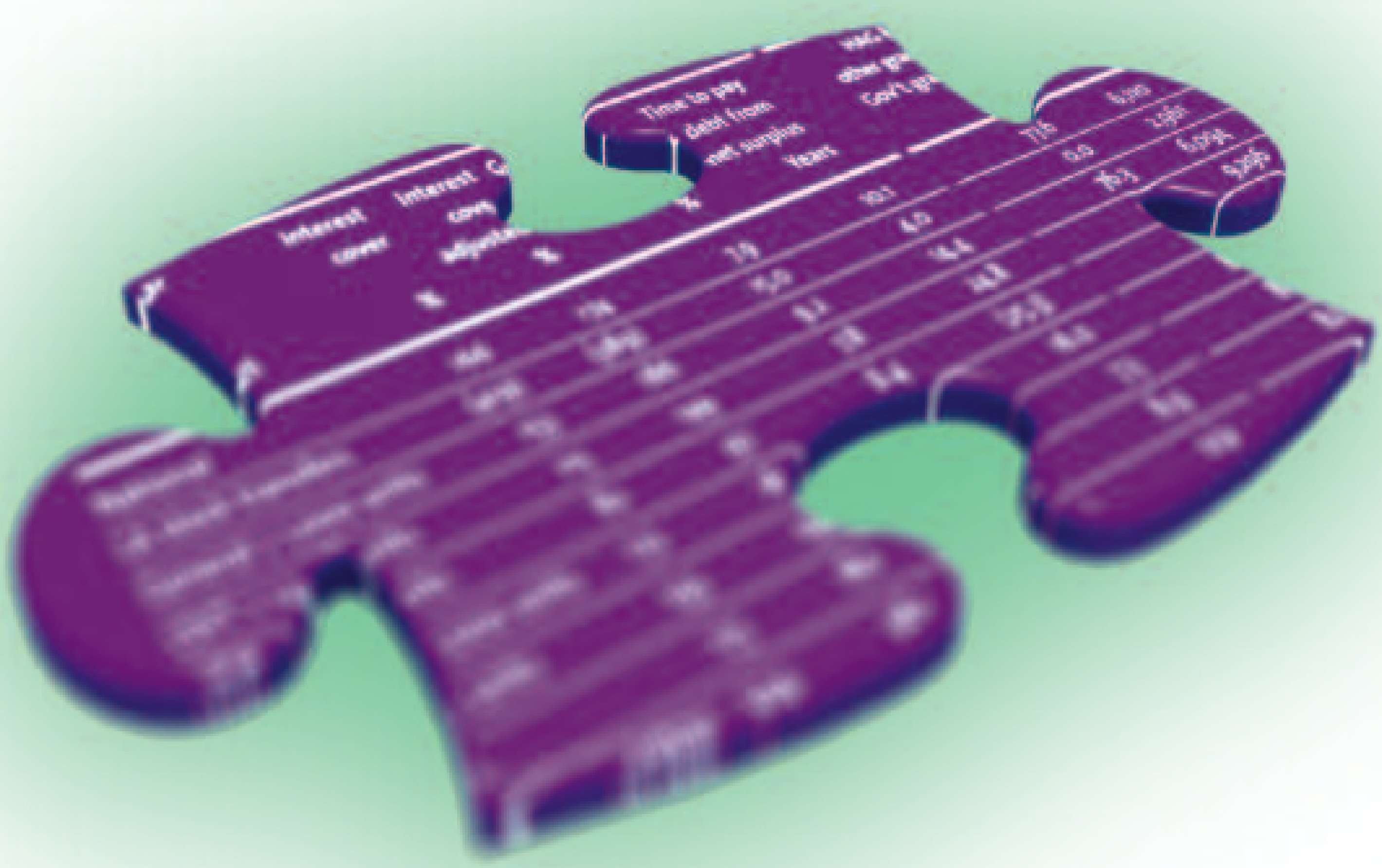
The Digest

A review of Scottish registered social landlords' financial and loan information from Communities Scotland



Published accounts and loans for the financial year
2005/2006

Ensuring decent housing
and strong communities across Scotland

Communities Scotland

Introduction

Welcome to *The Digest* from Regulation & Inspection, part of Communities Scotland, the Scottish Executive's housing and regeneration agency.

This annual publication provides the summary and analysis of the published accounts of registered social landlords (RSLs) in Scotland for the financial year 2005/06. This is the fifth year information on income and costs from the accounts has been collected and it has enabled us to look and comment on some trends since 2001/02.

This year we have grouped RSLs into four generic types: local authority (LA) stock transfers, large scale voluntary transfers (LSVTs) from other public bodies, general, and care and supported.

We have also increased the size band categories for management and maintenance costs from six to 11 in order to undertake some more detailed analysis. As 64% of all RSLs in Scotland have fewer than 1,000 houses, we are interested in examining the relationship between cost and size.

The number of RSL accounts analysed has reduced from 178 to 174 through transfer or merger. As in previous years the overall analysis excludes the financial performance of Abbeyfields, and the management-only local housing organisations set up to manage housing stock on behalf of Glasgow Housing Association (GHA).

Contents

Income and expenditure account

Sector overview

In 2005/06, the operating surplus for the sector reduced to £30m, the lowest level in recent years and a £28m, or nearly 50%, reduction on 2004/05. However, if the effect of the LA stock transfers is excluded then the remaining RSLs generated a similar level of surplus to the previous year.

Two LA stock transfer RSLs, GHA and Scottish Borders, recorded operating deficits, including GHA's substantial £61m. It is inevitable that this level of deficit will have a significant impact on the sector and readers should bear this in mind when interpreting the year's results.

Turnover continues to increase. At £856m, this represents a 6% increase on 2004/05 and a near 100% increase since the integration of the LA stock transfer RSLs in 2003/04.

Other operating costs increased by 10%. The costs attributable to the LA stock transfers showed a 15% increase across the year, significantly below the 60% increase reported in 2004/05. The remaining RSLs recorded a collective increase of around 7%.

The sector recorded its first net deficit in 2005/06 of £11m. This represented a £20m movement from the £9m surplus recorded in 2004/05. The impact of the LA stock transfers, and GHA in particular, influenced this trend. As a result the deficit masks the underlying performance of the majority of the sector, as it comprises a £58m deficit for the LA stock transfers against a £47m surplus for the remainder of the RSLs. This level of surplus for the majority of the sector represents, at £9m, a 28% increase on 2004/05.

Exceptionals and sales

Our analysis includes 'exceptional' items that do not form part of normal trading activities.
In 2005/06 they increased considerably to £2.5m. However, more than £2m of this was covered by the impairment of a subsidiary company investment. There are some additional amounts in respect of re-structuring and re-financing costs which are separately recorded. While this review notes these items separately, ratios are calculated including all items.

Profits on sales of assets remain significant at almost £20m, a £1.5m increase on 2004/05. Most of this is due to ongoing right to buy sales. 2005/06 saw little change in interest receivable and other income, dropping marginally to £16.5m. There was a similar marginal movement in interest payable, rising by around £1m to more than £85m in 2005/06.

Interest margins and tax

We continue to collect information on new borrowings as part of the consents application process. In 2005/06, the trend of variable rate borrowing continued, with 57% of all new approved loans. RSLs generally continue to access competitive margins on top of base or LIBOR and as a result we saw the average pooled cost of borrowing reduce from 6% to 5.7%.

Any potential impact of corporation tax on the figures was further mitigated in 2005/06. Tax payable was down to £1.9m, with 60% of the liability offset by Section 54 grant. In five years, the sector's tax bill has reduced by more than 60%, chiefly as a result of the significant number of RSLs that have chosen to adopt charitable status.

National consolidated INCOME & EXPENDITURE ACCOUNT	2005/06 National £,000	2004/05 National £,000	2003/04 National £,000	2002/03 National £,000	2001/02 National £,000
Turnover	856,068	808,178	779,885	488,113	433,763
Housing depreciation & impairment	25,678	26,795	24,903	21,940	18,825
Other operating costs	797,815	723,428	591,370	378,040	327,266
Operating surplus before exceptionals	32,574	57,955	163,612	88,133	87,672
Exceptional items	(2,489)	445	(5,691)	(215)	(579)
Operating surplus	30,085	58,400	157,921	87,918	87,093
Profit on sale of assets	19,704	18,243	23,806	9,278	6,465
Interest receivable & other income	16,462	17,600	12,263	8,534	9,385
Interest payable	(85,180)	(84,291)	(77,285)	(70,645)	(69,823)
Surplus before tax & exceptionals	(18,929)	9,952	116,705	35,085	33,120
Exceptional items	8,582	(818)	0	146	1,094
Surplus before tax	(10,347)	9,134	116,705	35,231	34,214
Tax payable	(1,857)	(2,218)	(2,408)	(3,109)	(4,932)
Tax grant	1,210	1,766	1,964	2,821	4,649
Surplus for year	(10,994)	8,682	116,261	34,943	33,931

TREND – PERFORMANCE	2005/06	2004/05	2003/04	2002/03	2001/02
Turnover per unit	£3,346	£3,145	£2,965	£3,070	£2,817
(Other) operating costs per unit	£3,118	£2,815	£2,249	£2,378	£2,125
Operating surplus per unit	£118	£227	£600	£553	£566
Net surplus per unit	(£43)	£34	£442	£220	£220
Operating surplus as a % of turnover	3.5%	7.2%	20.2%	18.0%	20.1%
– ex. LA whole stock transfers	15.5%	16.2%	as above	as above	as above
Surplus for year as a % of turnover	(1.3%)	1.1%	14.9%	7.2%	7.8%
– ex. LA whole stock transfers	7.9%	6.8%	as above	as above	as above
Excluding housing depn & impairment					
Operating surplus as a % of turnover	6.5%	10.5%	23.4%	22.5%	24.4%
– ex. LA whole stock transfers	19.8%	20.7%	as above	as above	as above
Surplus for year as a % of turnover	1.7%	4.4%	18.1%	11.7%	12.2%
– ex. LA whole stock transfers	12.2%	11.3%	as above	as above	as above
Gross rental income – £'000	686,432	645,946	624,855	374,671	344,168
Void loss – £'000	16,243	18,300	21,217	10,144	10,340
Void loss	2.4%	2.8%	3.4%	2.7%	3.0%
Total loans averaged for period – £'000	1,487,454	1,409,328	1,287,284	1,152,725	1,055,046
Net interest costs per unit	£269	£259	£247	£391	£392
– ex. LA whole stock transfers	£418	£421	£391	as above	as above
Average cost of borrowing	5.7%	6.0%	6.0%	6.1%	6.6%
Number of units owned	255,860	257,000	263,000	159,000	154,000

Analysis by classification

This year we have extended the analysis of the sector. Where in previous years we have only reported on the sector as a whole, this year we introduce a further level of detail, splitting the sector into four separate classifications:

- local authority stock transfers (three),
- large scale voluntary transfers (30),
- care and supported (19), and
- general (122).

The three LA stock transfer RSLs own over 87,000 houses, or around 34% of the stock in the RSL sector. They collectively generate over 30% of the sector's turnover, but incurred over 40% of its operating costs.

Surpluses

In contrast, the remaining RSLs were able to generate sufficient revenue while keeping their costs low enough to record operating surpluses. The LSVT and general RSLs return similar figures, with operating surpluses at 19% of turnover. The care and supported RSLs generally operate from a higher cost base, returning, at £8.5m, an operating surplus of only 5% of turnover.

Of the £17.5m charged in the year against housing depreciation and impairment, only £0.3m related to the LA stock transfers. This is mainly because GHA still values its properties at nil value.

As reported earlier, the operating surplus of £30m was around £28m lower than in 2004/05. The LA stock transfers recorded an operating deficit of £62m in the year. This means that the remaining RSLs, representing the majority of the sector, reported an operating surplus which, at £92m, was little different from last year's figure of £94m.

Income

Of the £20m raised from the sale of fixed assets, more than £9m is attributable to the 122 general RSLs that make up the majority of the sector. The LA stock transfers generated almost £3m of profit, the other LSVT RSLs added £5m, with the care and supported organisations adding a further £2m.

In contrast, the £5m of interest receivable attributable to the LA stock transfers appears to be disproportionate to the total of £16.5m received by the sector. Again, GHA dominates this classification group, receiving close to the £5m on its own. The remaining £11.5m was spread across the rest of the sector, with the general RSLs the main recipients with £7.5m.

Net surpluses

As already noted, the sector reported its first net deficit. However, as with the operating surplus, this disguises the performance of the majority of the RSLs. GHA recorded a net deficit of £55m, which made up the majority of the £58m attaching to all three LA stock transfer RSLs.

The remaining 171 RSLs reported a combined net surplus of £47m. The general RSLs account for the majority of this surplus, at £35m. If we look at the surplus generated on a unit basis, their £309 per unit is actually bettered by the 'care and supported' class, where a net surplus of £7.6m equates to £361 per unit. Comparing general and LSVT organisations on a per unit basis, turnover (£2,900) and operating costs (£2,200) were similar. The major difference is that the net surplus in the LSVTs was only £135 per unit, reflecting the higher financing costs of these organisations.

Analysis by classification INCOME & EXPENDITURE ACCOUNT	2005/06 National £,000	LA stock transfer £,000	LSVT £,000	General £,000	Care/ supported £,000
Turnover	856,068	262,471	100,575	321,937	171,085
Housing depreciation & impairment	25,678	310	4,750	17,512	3,107
Other operating costs	797,815	324,193	76,302	238,315	159,005
Operating surplus before exceptionals	32,574	(62,033)	19,523	66,111	8,973
Exceptional items	(2,489)	0	0	(2,094)	(395)
Operating surplus	30,085	(62,033)	19,523	64,017	8,578
Profit on sale of assets	19,704	2,679	5,253	9,446	2,326
Interest receivable & other income	16,462	5,141	1,439	7,562	2,321
Interest payable	(85,180)	(3,575)	(21,431)	(53,797)	(6,377)
Surplus before tax & exceptionals	(18,929)	(57,788)	4,785	27,228	6,848
Exceptional items	8,582	(334)	51	8,156	709
Surplus before tax	(10,347)	(58,122)	4,836	35,384	7,557
Tax payable	(1,857)	0	(283)	(1,575)	0
Tax grant	1,210	0	141	1,069	0
Surplus for year	(10,994)	(58,122)	4,694	34,878	7,557

PERFORMANCE	2005/06 National	LA stock transfer	LSVT	General	Care/ supported
Turnover per unit	£3,346	£3,001	£2,899	£2,855	£8,171
(Other) operating costs per unit	£3,118	£3,707	£2,199	£2,113	£7,594
Operating surplus per unit	£118	(£709)	£563	£568	£410
Net surplus per unit	(£43)	(£665)	£135	£309	£361
Operating surplus as a % of turnover	3.5%	(23.6%)	19.4%	19.9%	5.0%
Surplus for year as a % of turnover	(1.3%)	(22.1%)	4.7%	10.8%	4.4%
Excluding housing depn & impairment					
Operating surplus as a % of turnover	6.5%	(23.5%)	24.1%	25.3%	6.8%
Surplus for year as a % of turnover	1.7%	(22.0%)	9.4%	16.3%	6.2%
Gross rental income – £'000	686,432	241,030	93,027	274,161	78,214
Void loss – £'000	16,243	7,977	1,760	3,825	2,681
Void loss	2.4%	3.3%	1.9%	1.4%	3.4%
Number of units owned	255,860	87,449	34,693	112,780	20,938

Analysis of income

Rents receivable, after deducting void losses, were £653m, representing a 4% increase on the previous year. In 2005/06 void losses stood at £16m, a reduction of around £2m (11%) from the previous year.

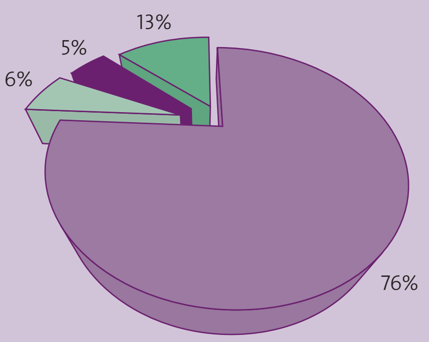
There was an increase of £7m in service charges receivable and of more than £4m in revenue grant funding, a significant change from 2004/05 which had seen a substantial drop in that funding source following the redefinition of Supporting People income.

RSLs disclosed this 'other' income:

- £45.5m Supporting People income,
- £3.3m for development activity,
- £2.9m factoring income,
- £3.1m received for wider role,
- £5.7m received for agency services.

As last year, there is a further £52m that has not been separately categorised. It is likely that a substantial proportion could be included under at least some of the categories listed above.

Income 2005/06



National	2005/06 £,000	2004/05 £,000
INCOME		
Rents receivable less voids loss	652,463	627,646
Service charges receivable	47,560	40,685
Revenue grants	43,216	38,833
Income from other sources	112,830	101,014
Total income/turnover	856,068	808,178

Analysis of expenditure

The analysis of expenditure for 2005/06 continued as 2004/05, with RSLs again providing an analysis of their costs that split activities between letting and non-letting. Care and support continue to be considered as part of complementary non-letting activities.

National expenditure

Letting activities	2005/06 £M	2004/05 £M
Management costs	243.3	239.9
Planned maintenance	117.3	118.1
Reactive maintenance and voids	104.0	100.5
Service costs	65.0	62.2
Bad debts	11.9	7.0
Housing depreciation and impairment	25.6	26.8
Total	567.2	554.4

Non-letting activities	2005/06 £'000	2004/05 £'000
Supporting people	60.0	58.0
Development activities	10.8	7.6
Wider action/wider role	9.9	6.3
Agency services	6.3	5.6
Factoring	6.5	5.8
Other including GHA activities	31.4	14.8
Care and repair	3.6	3.1
Care activities	23.4	19.4
Development for sale	1.2	0.2
GHA revaluation adjustment	103.0	75.0
Total	256.1	195.8
Total expenditure	823.3	750.2

Of the total £823m spent by the sector on operating costs, £568m (69%) was spent on letting activities. This is a reduction of 4% from last year.

Total management costs increased by £3.4m to £243m. Planned maintenance levels reduced by £0.7m, while expenditure on reactive maintenance in the sector rose by 4% to £104m.

Bad debts rose by £4.9m, an increase from £7m in 2004/05 to almost £11.9m in 2005/06. Of this sum £10m (84%) was to write off uncollectable rent and service charges. The remainder related to debts on other RSL activities, mainly factoring. Housing depreciation and impairment levels remained in line with stock levels.

Enhanced housing management costs for supported tenancies are mostly funded by Supporting People grant. These costs dipped slightly in 2005/06 to just less than £60m.

Wider community activity has increased. Around 150 RSLs indicated that they incurred costs for wider action activities, compared to only 71 in 2004/05. These activities cost a total of £9.9m, a rise of 37%.

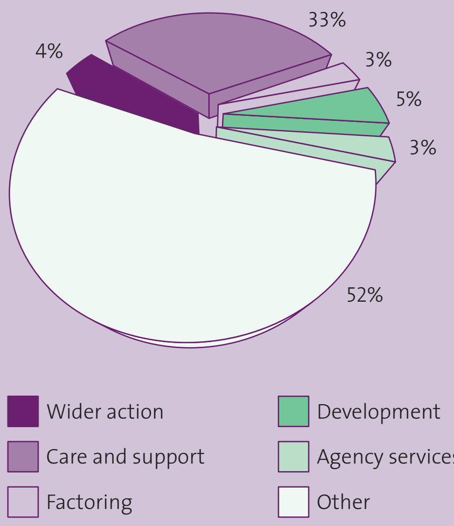
Factoring increased by 11% for a number of Scottish RSLs.

Care and repair costs funded from revenue grant increased by 14%, taking the total spend to £3.6m. Expenditure on care and support activities in total came to £85m.

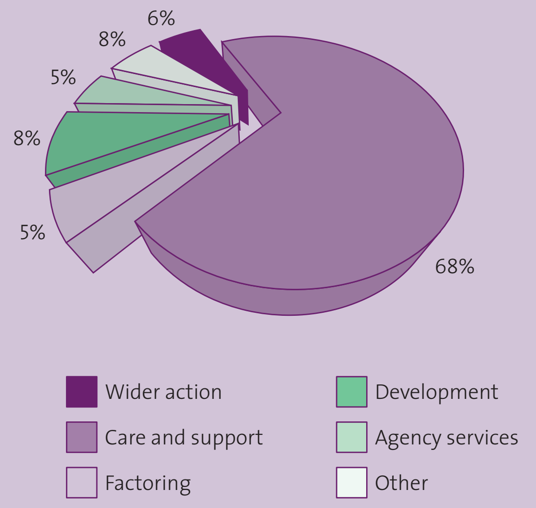
The first graph shows non-letting expenditure. Over half of the reported costs relate to GHA, which recorded almost £124m on other non-letting activities. This covers £7.4m on demolitions, £11.9m on owner occupiers, £1m on contents insurance, £0.3m on commercial property lets, and £103.5m on a revaluation adjustment, reflecting capital costs for improvements to properties.

The second graph shows non-letting expenditure excluding the GHA other costs. This shows the predominance of care and support activities in the sector.

Non-letting expenditure total



Non-letting expenditure excluding GHA



Balance sheet

The sector overall

With no LA stock transfers and only a 1% reduction in house numbers from last year, the consolidated balance sheet shows no significant movement from 2005/06. Due to the size of GHA's operation, we will highlight its impact on the reported figures for the sector, where appropriate.

Fixed assets

The gross cost or valuation of housing properties rose by about £0.5bn (7.5%) to £7bn. This is greater than in 2004/05 when we had noted that growth appeared to be slowing down. GHA continues to charge all of its non grant-aided investment in houses to income and expenditure and show a nil value for its housing stock. HAG and other public grants increase towards £5bn, and continue at about 70% of cost or valuation.

Current assets

As in previous years, cash reduced, this time by £58m to £319m, but still remains healthy at around £1,250 per unit. This trend may continue if, for example, there is a continuation in the recent popularity of 'revolving' loan facilities which are allowing RSLs to retain access to funds without the need for such substantial cash deposits.

Rent arrears increased by £1.5m to £26.5m, an increase for the sector of nearly 6%. For the traditional RSLs the rise was around £0.3m to £16m. Stock transfer RSLs showed a significant £1m (11%) increase, largely attributable to GHA.

Liabilities

Outstanding borrowings rose by £90m to more than £1.5bn. A further £16.5m was made available in the form of unsecured overdrafts and development bridging finance. The growth in borrowing is similar for traditional and stock transfer RSLs.

Debt per unit, therefore, shows an increase. The main holders of unit debt are the general and LSVT RSLs. However, we expect substantial upward movement in unit debt in LA stock transfers as GHA begins to draw down against its funding facility.

Reserves

Although total capital and reserves have remained fairly constant over the past three years at around £630m, there is a changing picture emerging.

Negative goodwill is now disclosed separately on the balance sheet and there has been an upward movement in revaluation reserves. This has been offset by a reduction in revenue reserves, although designated reserves continue to grow.

National consolidated BALANCE SHEET	March 2006 National £,000	March 2005 National £,000	March 2004 National £,000	March 2003 National £,000	March 2002 National £,000
Housing properties – gross cost or valuation	6,921,720	6,437,424	6,148,478	5,649,211	5,265,364
Housing depreciation	(140,192)	(116,259)	(93,200)	(68,543)	(47,952)
Housing association grant (HAG)	(4,816,337)	(4,479,774)	(4,284,714)	(4,024,539)	(3,799,018)
Other government grants	(129,423)	(140,752)	(129,270)	(119,745)	(98,727)
Fixed asset investments	15,717	9,782	9,727	8,626	11,601
Other fixed assets	124,699	103,898	93,190	61,768	55,425
Total fixed assets	1,976,184	1,814,319	1,744,211	1,506,778	1,386,693
Current assets – stock & work in progress	6,725	1,393	2,740	746	632
Net rental debtors	26,631	25,198	24,999	22,653	19,498
Other debtors	1,280,804	1,390,300	1,495,088	72,670	70,712
Investments, excluding cash	17,770	931	1,106	19,779	15,547
Cash at bank and in hand	319,107	377,290	389,600	235,012	204,900
Total current assets	1,651,037	1,795,112	1,913,533	350,860	311,289
Loans < 1 year	66,602	65,640	50,750	34,532	35,462
Business overdraft	8,736	7,481	7,471	7,765	11,534
Bridging finance for development	7,730	8,901	18,944	18,677	17,680
Other creditors	292,943	253,236	229,125	157,476	134,709
Total current liabilities	376,011	335,258	306,290	218,450	199,385
Net current assets	1,275,026	1,459,854	1,607,243	132,410	111,904
Loans > 1 year	1,449,786	1,360,031	1,299,438	1,136,990	1,042,809
Other long-term creditors	11,822	16,001	15,939	7,466	4,457
Total long-term liabilities	1,461,608	1,376,032	1,315,377	1,144,456	1,047,266
Provisions for liabilities & charges	1,160,943	1,273,853	1,397,664	2,587	2,399
Net assets	**628,659**	**624,288**	**638,413**	**492,145**	**448,932**
Share capital	38	40	43	43	44
Negative goodwill	18,291	0	0	0	0
Revaluation reserve	74,552	48,619	59,174	45,523	37,980
Designated reserves	320,900	299,814	283,088	255,895	212,848
Restricted reserves	10,254	8,259	21,742	20,051	42,248
Revenue reserve	204,624	267,556	274,366	170,633	155,812
Total capital & reserves	**628,659**	**624,288**	**638,413**	**492,145**	**448,932**

TREND – PERFORMANCE	March 2006	March 2005	March 2004	March 2003	March 2002
Net housing assets per unit	£7,175	£6,617	£6,241	£9,034	£8,569
Net rental debtors per unit	£104	£98	£95	£142	£127
Cash & current investments per unit	£1,317	£1,472	£1,486	£1,602	£1,431
Debt per unit	£5,991	£5,611	£5,234	£7,534	£7,191
Net debt per unit	£4,674	£4,139	£3,749	£5,932	£5,760
Revaluation reserve per unit	£291	£189	£225	£286	£247
Designated, restricted, revenue reserves per unit	£2,094	£2,240	£2,202	£2,809	£2,668
Number of units owned	255,860	257,000	263,000	159,000	154,000

Analysis by classification

The overwhelming majority of the gross cost/valuation of assets lies with the general RSLs. At more than £5bn, this is around 77% of the sector total of £7bn. This is despite only holding around 44% of the stock. LA whole stock transfer RSLs, on the other hand, hold 34% of the stock but only account for less than 1% of the asset value. This is mainly due to the fact that GHA has so far kept the value of its 70,000 units off the balance sheet.

Funding

A total of £5bn in HAG funding has been received by RSLs, with nearly £4bn accounted for by general RSLs.

Cash per unit shows quite a wide spread across the sector with the care and supported RSLs at £1,968 per unit holding almost three times the £750 held by the LA stock transfer RSLs. And at £1,686 per unit, the general RSLs hold more than double.

Similar to the cash position we also see a wide spread in the figures for net debt per unit, ranging from as little as £385 per unit for the LA stock transfers to almost £9,000 for the LSVT RSLs. These figures are in keeping with the current structure of these classification types. The LA stock transfer RSLs have to date only drawn down a relatively small proportion of the funding facilities available to them, whereas the LSVT RSLs have traditionally been the most frequent borrowers from the lending institutions.

'Other debtors' is dominated by GHA and their VAT shelter scheme. This accounts for more than £1bn of the total. The other three classes account for the balance of around £112m.

Cash, although down from previous years, remains healthy. For the LSVT and care and supported RSLs their cash of £40m and £30m respectively covers their current liabilities. This healthy position contributes to net current assets that, despite being around £185m down on 2004/05, currently shows no cause for concern.

Debt

General RSLs collectively dominate the private borrowing figures, with nearly £1bn of outstanding loan debt. On a unit basis the LSVT RSLs are most indebted to the financial institutions. Their outstanding long and short-term loans of £343m equate to debt of £9,891 per unit. This is in direct contrast to the LA stock transfer RSLs, whose outstanding unit debt is only £1,136. However, they have yet to draw down any significant sums against the sizeable facilities available to them.

General RSLs account for £436m (69%) of a total net assets figure of £629m. The care and supported RSLs' net assets total of £122m equates to more than £5,000 per house.

BALANCE SHEET BY CLASSIFICATION	March 2006 National £,000	LA stock transfer £,000	LSVT £,000	General £,000	Care / supported £,000
Housing properties – gross cost or valuation	6,921,720	56,071	630,619	5,324,010	911,020
Housing depreciation	(140,192)	(1,619)	(24,667)	(97,047)	(16,859)
Housing association grant (HAG)	(4,816,337)	0	(198,013)	(3,915,670)	(702,654)
Other government grants	(129,423)	(139)	(26,063)	(82,381)	(20,840)
Fixed asset investments	15,717	0	0	4,978	10,739
Other fixed assets	124,699	33,915	8,060	61,414	21,310
Total fixed assets	1,976,184	88,228	389,937	1,295,304	202,715
Current assets – stock & work in progress	6,725	101	148	6,436	40
Net rental debtors	26,631	7,571	3,375	12,711	2,974
Other debtors	1,280,804	1,169,001	12,651	82,420	16,732
Investments, excluding cash	17,770	0	0	17,461	309
Cash at bank and in hand	319,107	65,621	39,901	172,683	40,903
Total current assets	1,651,037	1,242,294	56,076	291,710	60,957
Loans < 1 year	66,602	86	4,162	57,461	4,893
Business overdraft	8,736	4,976	423	3,303	34
Bridging finance for development	7,730	0	1,184	6,546	0
Other creditors	292,943	89,756	31,626	141,921	29,640
Total current liabilities	376,011	94,818	37,395	209,231	34,567
Net current assets	1,275,026	1,147,476	18,681	82,479	26,391
Loans > 1 year	1,449,786	94,249	337,385	923,913	94,238
Other long-term creditors	11,822	0	950	2,449	8,423
Total long-term liabilities	1,461,608	94,249	338,336	926,363	102,661
Provisions for liabilities & charges	1,160,943	1,137,002	3,853	15,819	4,269
Net assets	628,659	4,452	66,429	435,602	122,176
Share capital	38	0	5	31	2
Negative goodwill	18,291	0	586	15,337	2,368
Revaluation reserve	74,552	11,110	38,135	21,321	3,986
Designated reserves	320,900	0	14,531	248,806	57,563
Restricted reserves	10,254	(690)	101	3,944	6,899
Revenue reserve	204,624	(5,968)	13,073	146,162	51,358
Total capital & reserves	628,659	4,452	66,429	435,601	122,176

PERFORMANCE	2005/06 National	LA stock transfer	LSVT	General	Care/ supported
Net housing assets per unit	£7,175	£621	£11,007	£10,897	£8,151
Net rental debtors per unit	£104	£87	£97	£113	£142
Cash & current investments per unit	£1,317	£750	£1,150	£1,686	£1,968
Debt per unit	£5,991	£1,136	£9,891	£8,789	£4,736
Net debt per unit	£4,674	£385	£8,741	£7,103	£2,768
Revaluation reserve per unit	£291	£127	£1,099	£189	£190
Designated, restricted, revenue reserves per unit	£2,094	(£76)	£799	£3,537	£5,532
Number of units owned	255,860	87,449	34,693	112,780	20,938

Loans

The ability to cover interest payments from income is an essential criterion for most lenders. Generally speaking, the ability to cover interest is on the decline. However, at 153% RSLs are still well placed to meet their repayment arrangements, and many have the capacity to service additional borrowings.

Thirty-seven RSLs did not meet the generally accepted minimum interest cover of 110% in 2005/06. Over half of them were general RSLs. The trend is the same for the interest cover adjusted ratio, which includes income from sales that have taken place during the year. Twenty-four RSLs fell below 110%, with the majority again being within the 'general' classification.

Adjusted operating surplus as a percentage of the net debt median for the sector increased in 2005/06 for the first time since 2001/02. There are more than sufficient operating surpluses in the sector to ensure net indebtedness can be repaid from annual operations. Some RSLs would be able to repay all their debt from cash and investments held.

National ratios medians	Interest cover %	Interest cover adjusted %	Adj operating surplus/net debt (%)	Time to pay net debt from net surplus Years
2001/02	188	194	11.4	12.3
2002/03	179	187	10.2	13.0
2003/04	175	182	9.7	11.4
2004/05	166	174	7.9	10.1
2005/06	153	169	8.8	12.9

In the year to March 2006 the lending sector remained quite active, with new loans of £240m approved. The Royal Bank of Scotland was the largest lender, with £100m, while English parent organisations committed £25m to Scottish RSLs. Eighty per cent of the new loans approved were for debt refinancing, with the remainder mainly to fund new developments.

New loans approved in 2005/06 by lender and type

	Fixed rate £ m	Variable rate £m	Total loans £m
The Royal Bank of Scotland	40	60	100
Dunfermline Building Society	2	53	55
HBOS	16	14	30
Inter Group	25	0	25
Lloyds TSB Scotland	14	0	14
Clydesdale Bank	5	4	9
Nationwide Building Society	0	4	4
Barclays	0	2	2
Britannia Building Society	0	1	1
Total	102	138	240

The loan balance outstanding at March 2006 was almost £1.5bn. Over half of all outstanding loans were shared between three lenders: Royal Bank of Scotland; Dunfermline Building Society; and HBOS. A total of £68m was outstanding on inter-group loans and it is likely that at least a proportion of this facility has been borrowed in the first instance from one of the banks or building societies on our list of lenders.

Lender	Ranking	Balance outstanding at March 2006 £m
The Royal Bank of Scotland	1 (1)	339.4
Dunfermline Building Society	2 (2)	277
HBOS	3 (3)	180.1
Clydesdale Bank	4 (4)	125.7
Abbey	5 (6)	96.8
Lloyds TSB Scotland	6 (5)	96.2
Inter group	7 (10)	67.6
Nationwide Building Society	8 (8)	65.8
Britannia Building Society	9 (7)	63.9
Bradford and Bingley	10 (9)	45
Northen Rock	11 (11)	31.8
Scottish Building Society	12 (12)	12.8
Bank of Ireland	13 (13)	11.9
Barclays	14 (14)	11.9
Dexia Bank	15 (15)	7.4
Co-operative Bank	16 (16)	5.6
THFC (Housing Finance Corp)	17 (17)	5.2
Depfa Bank	18 (18)	3.1
European Investment Bank	19 (19)	2.5
Leeds Building Society	20 (-)	1.7
Allied Irish Bank	21 (20)	0.1
Total loans outstanding		1,452

Figures in brackets are 2004/05 ranking

Drawn and undrawn facilities

Approved or committed loans rose to £2.6bn from £2.5bn at March 2005. Sixty per cent of this facility has been drawn down for use by RSLs, leaving around £1bn available for future development, investment and expansion. GHA has £725m of the undrawn facility and the other two LA stock transfer RSLs, Dumfries and Galloway and Scottish Borders, have £44m, or around 40%, of their facilities undrawn. This should reduce as their improvement programmes continue. RSLs in other classification groups may have access to £292m.

Most of the larger LSVTs have facilities available, some substantial. For the group as a whole, 18% of the current facility is undrawn. General RSLs also have access to undrawn facilities.

It is also becoming more common for RSLs to arrange block facilities for current and future use, with drawdowns as and when required. Lenders will usually be paid a non-utilisation fee for the proportion of the facility that remains undrawn. It is assumed that RSLs have judged that this cost will be less than the fees and additional time and administration incurred to arrange new borrowing at the time it is required. Solid business planning is an essential requirement when considering this type of arrangement.

Balances drawn and available by classification group at March 2006 – £ million

Classification group	Approved loans	Balance drawn	Balance undrawn	Proportion undrawn
LA whole stock transfer	836	67	769	92%
General	1,248	1,045	203	16%
LSVT	426	351	75	18%
Care & supported	122	108	14	11%
Total	2,632	1,571	1,061	40%

Fixed and variable loans

The proportion of fixed and variable rate loans has moved from an almost equal 50:50 split in 2004/05 to a 47:53 fixed to variable split. The 'general' classification has the highest proportion of variable rate loans at 55%. The LA stock transfers proportion of fixed rate loans to variable rate loans is almost equal. Because a large proportion of their loans are undrawn, this may change in the coming years as more of the available facilities are drawn down.

The majority of new lending in 2005/06 was at variable rates. This trend looks to be continuing in 2006/07, despite recent increases in the bank base rate.

Total fixed and variable loans by classification group – £ million

Classification group	Approved loans	Balance drawn	Balance undrawn	Proportion undrawn
LA whole stock transfer	406	430	836	835
General	556	692	1,248	1,157
LSVT	212	214	426	352
Care & supported	61	61	122	116
Total	1,235	1,397	2,632	2,460

The downward trend in the percentage of the cost of housing being financed from public grant continued and the sector median has reduced very slightly to 77.4%. This affects the amount of private finance required to support new developments.

The unit debt is tending to increase, with the sector median this year at £6,346 per house, which continues the upward trend for this ratio. There are large variations within the sector, with a number of RSLs holding more cash than debt.

The median for debt per unit, without offsetting cash and investments, is £8,295, a slight increase from the previous year. Twenty-five RSLs had a net debt per house of more than £12,000 and six of these RSLs had net debt of more than £15,000 per house.

The median net interest cost per unit has fallen very slightly to £396 per unit. As we would expect, the highest medians are evident for LSVT RSLs that are almost fully debt-funded. Some RSLs, and in particular a number of those providing supported accommodation, receive more, or the same, interest and other income than they pay in interest costs.

Measuring indebtedness against the rental income stream includes two elements that are fairly inflexible for business planning. The median for the sector is a multiplier of 2.6 and this has remained fairly constant over the five year period, peaking at 2.8 in 2002/03. Again the highest classification medians are evident for the LSVT RSLs that are debt-funded.

The median effective interest rate for the sector was 6%, an increase of 0.2% from the previous year. The lowest rates are shown for RSLs providing care and supported accommodation, because these RSLs generally have more cash than debt, so the rate is weighted towards interest received.

National medians	HAG and other gov't grants %	Net debt per unit £	Net interest pay/(rec'v) per unit	Net debt: net rent	Effective interest rate %
2001/02	79.9	5,753	350	2.7	6.3
2002/03	78.5	5,910	360	2.8	6
2003/04	77.9	5,886	375	2.7	5.8
2004/05	77.6	6,110	401	2.6	5.8
2005/06	77.4	6,346	396	2.6	6

Management costs

Scottish RSLs submit an annual analysis of their operating costs. The costs are broken down in a prescribed format and are reconciled with the annual accounts. Part of these costs are management costs, which are those costs incurred to provide a housing management service, including caretaker and concierge services, as well as the administration of the maintenance services for tenants.

Medians for those costs are calculated from closing stock figures. Housing units owned at March 2006 dropped marginally to around 256,000. Stock continues to be lost through the usual routes of right to buy sales and demolitions. Although the net number of units lost across the sector was minimal, GHA reduced its housing stock by more than 3,000 units.

The median cost per house for providing management services to tenants increased from £794 to £863 in 2005/06. This represents an increase of 8.7% over the previous year. The upper quartile cost rose to £989 per house, an increase of 6%, and the lower quartile rose by 7.6% to £712 per house. While these figures show that costs in the RSL sector as a whole are running ahead of inflation, 51 RSLs out of the 174 in the analysis reported costs lower than the previous year, with a further nine (including GHA) containing cost increases to less than RPI.

Nevertheless, the trend of RSLs reporting year on year unit cost increases significantly above inflation appears to be continuing. Since 2001/02 the median cost has increased from £657 per house to £863 per house, an increase of some 30%. Allowing for inflation this represents a real terms increase of 17.5%, or 4.3% annually.

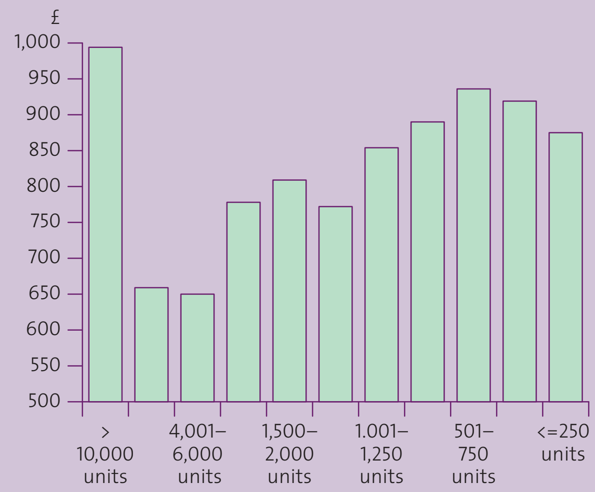
Management cost trends (medians)

The cost of management between general and LSVT RSLs shows fairly similar median costs of £867 and £844 per house respectively. When considering the median costs of LA stock transfers, readers should be aware that as there are only three organisations in the peer group, and reported costs range from £630 to £1,271 per house, the median cost of £717 is simply the cost of the middle ranking RSL in this group.

Size matters

Of far more relevance to management costs is the actual size of an RSL in terms of numbers of units managed. There is now strong evidence that RSLs with more houses and, therefore, the ability to introduce some economies of scale into their operations do tend to have lower unit management costs than those of their smaller counterparts.

Unit management costs by size (medians)



The exception to this trend is RSLs with over 10,000 houses. However, it is important to note that this grouping has only two RSLs and the unique costs within the GHA in terms of structure and stock type heavily influence this figure.

Multi-storey costs

There are nine RLS in Scotland whose costs are significantly influenced by the number of multi-storey properties in their portfolios. Six of these RSLs incur costs of around £1,000 per high-rise property, with the remaining three reporting costs of around £500 per high-rise property. The main factor in determining the outturn for these costs is staff costs and, crucially, the ratio of caretaking/concierge staff to multi-storey stock. These show a wide range. GHA has about 750 caretaking and concierge employees throughout the city, giving it a staff stock ratio of 1:30, and a multi-storey cost per unit of £402. Clydebank Housing Association, on the other hand, reports only three people engaged in this activity, giving it a ratio of 1:130 and a cost per property of only £187.

Spread over the whole portfolio of each RSL, multi-storey costs are shown to account for between £100 to £750 per house. As important as the actual cost of the service is the proportion of multi-storey properties each of these RSLs have. West Whitlawburn Housing Co-operative, with 79% of all its properties classified as multi-storey, has by far the highest proportion of multi-storey stock and, therefore, reports the highest cost per unit.

There are only nine RSLs with multi-storey stock out of the 174 organisations that were used to calculate the sector median and upper and lower quartiles for management costs. If these organisations are removed, and the medians and upper and lower quartiles are recalculated to exclude multi-storey costs, none of these figures change significantly. This is due to a bunching effect where a number of organisations all report costs around these figures.

Financial year 2005/06 Management costs per unit by: classification group	Lower quartile £	Median £	Upper quartile £
National	712	863	989
LA stock transfer	673	717	994
LSVT > 1000 units	725	772	920
LSVT < 1000 units	678	943	961
All LSVT	710	844	959
General > 1000 units	672	781	887
General 250 – 1000 units	808	915	993
General < 250 units	684	871	1,114
All general	712	867	989
Older clients	567	640	865
Supported accommodation	851	1,091	1,585
Other specialist RSL	825	1,011	1,243
All care & support	760	861	1,254

Financial year 2005/06 Management costs per unit by: size	Lower quartile £	Median £	Upper quartile £
National	712	863	989
> 10,000 units	855	994	1,132
6,001 – 10,000 units	644	659	674
4,001 – 6,000 units	628	650	679
2,001 – 4,000 units	656	778	931
1,500 – 2,000 units	739	809	883
1,250 – 1,500 units	712	772	883
1.001 – 1,250 units	721	854	914
751 – 1,000 inits	836	890	983
501 – 750 units	806	936	957
251 – 500 units	758	919	1,036
<= 250 units	701	875	1,211

Financial Year 2005/06 Management costs per unit Costs trends	Lower quartile £	Median £	Upper quartile £
2001/02	579	657	790
2002/03	600	711	826
2003/04	603	737	885
2004/05	662	794	933
2005/06	712	863	989

Maintenance costs

Information is collated on planned, voids and reactive maintenance and repairs costs from RSLs using a self certified return submitted with their annual accounts. These costs exclude maintenance administration costs, which are recorded under management costs, and any repairs costs that have been capitalised and added to the fixed assets in the balance sheet.

This year we have combined reactive and void repairs, as inconsistencies in the way RSLs allocate costs between the two categories mean that it is only when the two are combined that any meaningful comparisons between RSLs can be made.

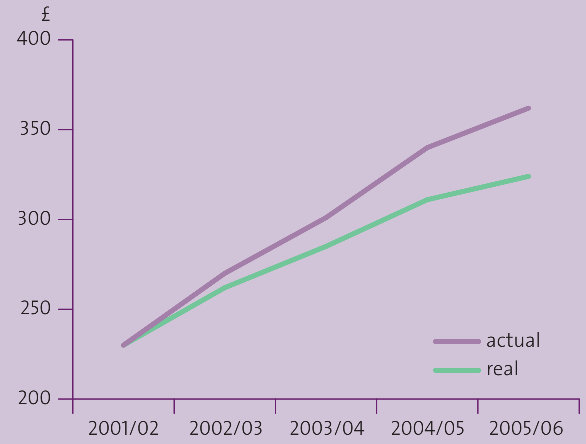
Planned maintenance

The median cost of planned maintenance rose this year from £340 to £362 per house. This represents an increase of 6%, well in excess of RPI, but, in fact, the smallest increase since we started producing *The Digest* in 2001/02.

Since 2001/02 the median cost of planned maintenance has risen from £230 per house to the current £362, an increase of £132 per house or 57%. This means that, allowing for inflation, costs have risen by on average RPI + 10% per annum.

We will be exploring over the coming months whether these increases reflect increases in material and labour prices, a greater volume of work undertaken, or a combination of both.

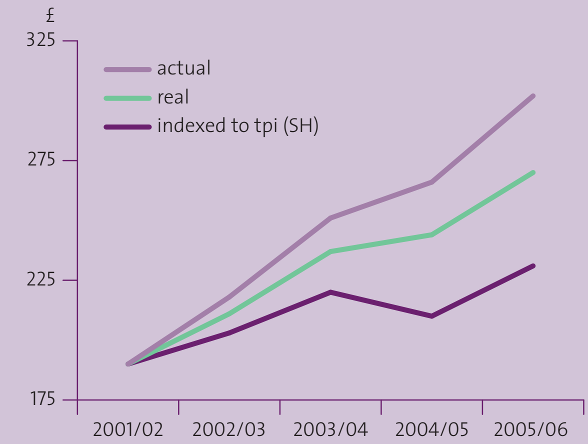
Planned maintenance cost trend (medians)



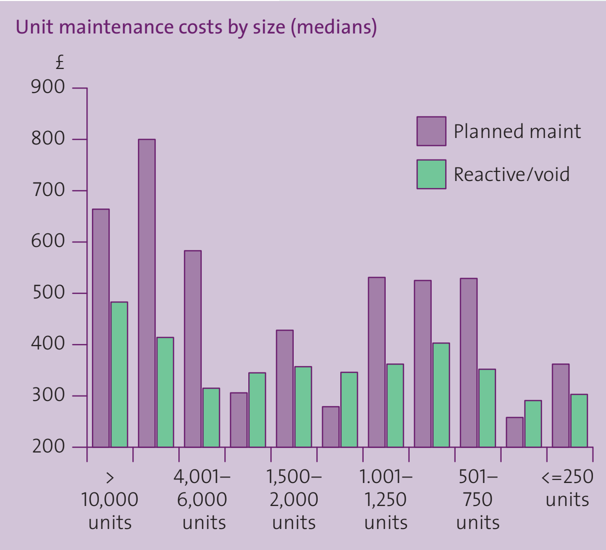
Reactive and voids maintenance

The median cost for reactive and voids maintenance was £339 per house. As this is the first year we have combined reactive and voids it is not possible to compare this year's median to previous years. We can compare the reactive element, which represents around 90% of the total costs to previous years. This year's reactive median of £302 per house shows a 13% increase over last year's cost of £266 per house. The increase since 2001/02 is £112 per house (58%) and, like planned maintenance, represents an annual increase of around 10% over RPI.

Unit reactive maintenance cost trends (medians)

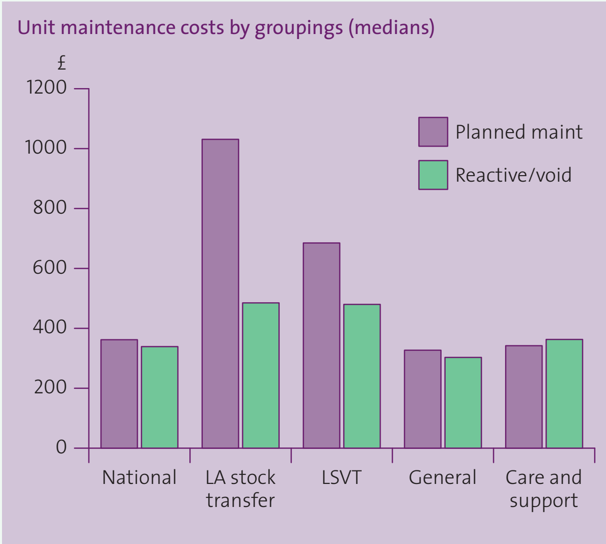


The trend for reactive maintenance shows costs increasing at a pace. Compared to planned maintenance, the volume of work from year to year is less likely to be a factor influencing these increasing costs. Measured against the tender price index for social housing, where tender prices have shown a 30.6% increase over this period, the actual increases are still around 5% over this index on an annual basis. Unlike the management costs, the size of an RSL does not appear to be a particularly relevant factor. Analysing RSLs by size show a mixed picture, as demonstrated in the following graph.



What is of more relevance is whether or not the RSL was formed as the result of stock transfer. The median cost for planned maintenance for general RSLs is £327 per house, compared to £685 for LSVTs and £1,021 for local authority stock transfers. For reactive and voids maintenance the median figures are £302 per house for general RSLs, compared to £480 and £485 per house for LSVT and LA stock transfers respectively.

The higher figures for planned maintenance for LA stock transfer organisations are in the main a reflection of the levels of investment that are required to bring these houses up to the required standard.



Financial year 2005/06 Maintenance costs by classification group	Planned maintenance Lower quartile £	Median £	Upper quartile £	Reactive & voids maintenance Lower quartile £	Median £	Upper quartile £
National	194	362	681	248	339	430
LA Stock Transfer	664	1,031	1,032	483	485	510
LSVT > 1000 units	249	626	783	394	484	524
LSVT < 1000 units	436	765	1,051	337	370	400
All LSVT	308	685	909	348	480	535
General > 1000 units	212	338	534	257	318	385
General 250 – 1000 units	194	304	573	220	296	368
General < 250 units	129	349	729	0	312	451
All General	194	327	576	223	302	389
Older Clients	430	600	663	309	394	437
Supported Accommodation	269	351	924	358	371	418
Other Specialist RSL	0	0	143	44	133	359
All Care & Support	145	362	663	278	363	431

Financial year 2005/06 Maintenance costs by size	RSLS	Planned maintenance Lower quartile £	Median £	Upper quartile £	Reactive & voids maintenance Lower quartile £	Median £	Upper quartile £
National	173	194	362	681	248	339	430
> 10,000 units	2	481	664	848	482	483	484
6,001 – 10,000 units	2	684	800	918	353	414	475
4,001 – 6,000 units	4	512	583	646	270	315	384
2,001 – 4,000 units	17	197	306	469	260	345	502
1,500 – 2,000 units	18	251	428	783	281	357	402
1,250 – 1,500 units	8	162	279	402	268	346	426
1.001 – 1,250 units	11	279	531	707	276	362	486
751 – 1,000 inits	18	228	525	901	323	403	468
501 – 750 units	26	278	529	763	238	352	375
251 – 500 units	38	146	258	454	218	291	342
<= 250 units	29	78	362	739	0	303	464

Financial year 2005/06 Maintenance costs costs trends	Planned maintenance Lower quartile £	Median £	Upper quartile £	Reactive maintenance only Lower quartile £	Median £	Upper quartile £
2001/02	104	230	464	120	190	261
2002/03	122	270	545	138	218	299
2003/04	138	301	530	177	251	332
2004/05	175	340	604	195	266	356
2005/06	194	362	681	203	302	382

Five year financial projections

Introduction

The framework for assessing the financial viability of RSLs in Scotland was introduced in January 2005. Initially only RSLs with more than 1,000 units were required to submit projections. In 2006 this was expanded to include all developing RSLs and all RSLs with more than 250 units. This year 145 RSLs were required to submit these projections. Due to some inconsistencies between RSLs' submissions, some minor adjustments have been made to allow more meaningful comparisons.

The five year financial projections paint a positive outlook in the period to 2010/11. Much of the improvement is delivered from unit growth anticipated by many RSLs. Should this increasing stock base not materialise, then the picture will change for some, but much of the profitability will remain in place.

Balance sheet

RSLs are projecting a 48% increase in fixed assets over the next five years, with a corresponding 37% increase in public grants. Debt less cash and investments is expected to increase over the five year period. The 'net worth' or value of capital and reserves is estimated to increase by 28%.

Debt is projected to increase from £1.5bn at March 2006 to £2.6bn in March 2011 – a rise of £1.1bn (GHA is expected to draw £0.4bn). The additional debt projected is most marked in larger RSLs, where revaluations may be capable of supporting additional financial capacity.

Income and expenditure

All classifications of RSLs are estimating some growth in turnover over the five-year period. Cumulative turnover from operations over the five year period is projected to be in excess of £4.7bn.

Cumulative operating costs over the five year period amount to almost £4.2bn. Of this, £1.5bn relates to the 101 general RSLs, while £1.3bn relates to the three local authority stock transfer RSLs – of which GHA accounts for £1.1bn.

Profits from the sale of houses are projected to reduce by £8m (over 50%). The exception is LA stock transfer RSLs.

Interest payable increases by 64% over the five year period. However, there is some variation between the classification groups. General RSLs assume a 54% increase, LSVT organisations a 19% increase, and care and supported RSLs a 20% increase. GHA's interest payments increase by almost £19m over the five year period as their borrowings take off.

SUMMARY OF KEY PROJECTED FINANCIAL INFORMATION

Balance sheet – £ million

Year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Gross cost or valuation of houses	6,829	7,462	8,279	8,929	9,581	10,098
HAG and other government grants	4,893	5,349	5,791	6,168	6,468	6,717
Investment & cash	1,526	1,280	1,117	960	810	706
Debt	1,500	1,698	2,003	2,233	2,416	2,578
Net assets/total capital & reserves	596	492	539	595	682	764

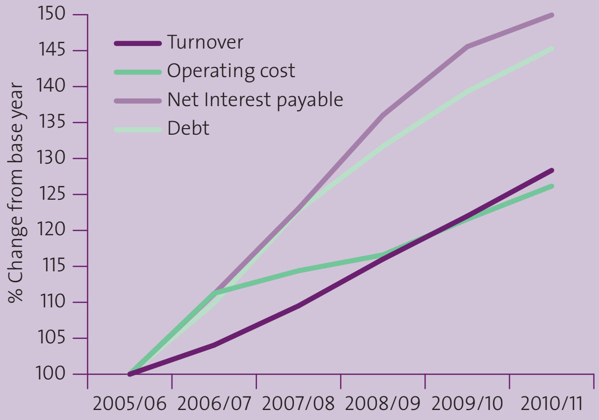
Income & expenditure account – £ million

Year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Turnover	823	850	900	950	989	1,033
Operating surplus/(deficit)	36	(43)	109	145	165	187
Profit on sale of assets	16	16	15	14	14	14
Interest receivable	16	10	8	8	8	9
Interest payable	85	91	105	120	131	139
Net surplus/(deficit)	(17)	(108)	28	48	56	70

Interest receivable within the sector is expected to decrease by 44% over the five year period. As a percentage of turnover, net interest paid is forecast to remain around 14%. This enables RSLs to increase operating costs with little impact on their cash balances. Cash balances held by RSLs are expected to remain in a healthy position.

The graph on the right illustrates that 2006/07 will be a critical year, as there will be a significant percentage growth in operating costs. This growth is expected to continue in 2007/08. Thereafter annual growth falls into line with turnover and operating costs, growing annually at around the same rate.

Summary of income and expenditure accounts and balance sheet projections



Projected ratio analysis

As part of our financial viability reviews we calculate ratios for each RSL. This section summarises the median ratio results for the 145 RSLs that submitted their five year projections.

Financial capacity

We can see that interest cover is likely to remain lower than our analysis for 2005/06. Much of this interest cover is affected by GHA. Nevertheless, interest cover remains high in Scotland and well capable of meeting interest payments on private loans. Around 49% of all RSLs have interest cover greater than 100% in all five years.

Net debt to be repaid from available resources indicates from our ratios that RSLs in Scotland will take more time to repay the debt on their balance sheet. This is mostly as a result of higher debt levels in the sector.

Financing

There is a decreasing trend in the value of grant rates available and RSLs seem to be taking account of this in their projections. The tables show what actual percentage of fixed assets are funded by grant and reflect the pooled grant level moving down to 74% at the end of this five year period review.

Net debt and debt per unit are stretching upwards, particularly net debt per unit which is expected to grow by over £1,600 per unit as the median. The debt per unit median grows by over £1,000 per unit.

There is an expectation in RSLs of a stable period of interest rates although recent movements in the base rate may continue in the short term before levelling out. The effective rate that we calculate for RSLs is tending to remain unchanged at around 6%, which is competitive. The highest median is found in the group of LSVT organisations.

Efficiency

Care and supported RSLs are projecting some of the highest levels of voids and arrears over the projected period. The median for bad debts remains low for the five year period, but there is a gradual increase in the overall median. Staff costs increase by almost 20% over the five year period, while the median for staff costs as a percentage of turnover shows a decrease.

Profitability

The gross surplus median is calculated as a percentage of turnover and again, although there is going to be a slight fall back in the position for 2006/07 and 2007/08, the more traditional 25% ratio will reappear in the last three years of the projections. Over the five year period the highest average level of gross surplus can be found in the group of general RSLs.

Net surpluses will reduce in the short term mostly as a result of GHA interest payments but remain at a healthy level of upwards of 7% in most of the years projected by RSLs.

PROJECTED RATIO ANALYSIS

Financial capacity – medians

Year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Interest cover	153%	123%	129%	137%	137%	148%
Interest cover adjusted	166%	129%	132%	140%	141%	155%
Net debt, repayment	14 years	19 years	18 years	21 years	19 years	20 years

Financing – medians

Year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
HAG & other grants	76.7%	76.9%	75.6%	75.7%	74.3%	74.0%
Net debt per unit	£6,958	£7,985	£8,460	£8,113	£8,943	£8,594
Debt per unit	£9,226	£9,463	£10,019	£9,564	£10,227	£10,297
Net interest per unit	£432	£476	£509	£495	£565	£579
Net debt : net rent (x)	2.9	3.1	3.2	3.1	3.1	3.0
Effective interest rate	6.0%	6.1%	6.0%	6.0%	6.1%	6.1%

Efficiency – medians

Year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Voids (%)	1.0	1.1	1.1	1.1	1.1	1.1
Arrears (%)	3.6	3.5	3.5	3.3	3.2	3.2
Bad debts (%)	0.8	0.9	0.9	0.8	0.9	0.8
Staff costs (%)	26.5	28.0	27.6	26.7	25.8	25.8

Profitability – medians

Year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Gross surplus	25.9%	20.6%	21.9%	25.0%	24.9%	25.3%
Net surplus	1.3%	6.1%	7.2%	8.4%	8.1%	9.5%

Contextual information

Audit

	Number of audits 2005/06	Number of audits 2004/05	Audit fees 2005/06 £'000	Audit fees 2004/05 £'000	Other fees 2005/06 £'000	Other fees 2004/05 £'000
Baker Tilly	47	46	421	358	60	115
Alexander Sloan	28	30	143	143	28	32
Scott-Moncrieff	20	19	148	110	32	23
Findlay & Co	19	18	141	127	40	14
Chien and Tate	12	13	95	104	16	38
Armstrongs	9	9	41	40	0	0
French Duncan	8	9	43	54	2	1
CIB audit	5	6	5	10	0	5
Pricewaterhouse Coopers	2	3	13	30	0	0
KPMG	4	3	97	82	102	72
Grant Thornton	2	3	23	36	8	12
Other firms	19	19	86		34	
TOTAL	175	178	1,256	1,094	322	312

All audits resulted in clear audit opinions indicating all RSLs were going concerns. In total 26 accountancy firms provided external audit and finance services to the sector during 2005/06. Many of the audits were carried out by small local firms. Almost three quarters of the audits were carried out by the firms Baker Tilly, Alexander Sloan, Scott-Moncrieff, Findlay, and Chiene and Tait. Larger firms carried out audits of Glasgow Housing Association and RSLs which are subsidiaries of larger English parent RSLs. Total audit fees in the sector for 2005/06 increased by 5% to £1.3m.

Directors' emoluments

Highest paid directors' emoluments

	2005/06	2004/05
Over £90k	2	3
£80 to £90k	3	2
£70k to £80k	8	11
£60k to £70k	17	13
£50k to £60k	50	36
£40k to £50k	51	60
Total	131	125

Directors' emoluments show some correlation with the size and complexity of the organisation. The chief executive of the largest RSL in Scotland, GHA, received the highest level of emoluments in the sector. Hillcrest Housing Association, Dumfries and Galloway Housing Partnership, Tenants First and Bield complete the group of the five RSLs with the highest paid directors' posts.

Over half of the RSLs pay their senior officers less than £50k. A small number of RSLs operate with directors on secondment, or paid on a consultancy basis. Those costs are not necessarily separately disclosed in the annual accounts and are instead included in mainstream management charge costs.

Staff costs

Staff costs	2005/06 £'000	2004/05 £'000	% increase
LA stock transfer	60,764	55,358	9.8%
Supported	60,173	55,510	8.4%
General > 1000	56,219	54,008	4.1%
Older clients	39,224	35,990	9.0%
General 250 – 1000	25,333	22,989	10.2%
LSVT > 1000	16,085	14,710	9.4%
LSVT < 1000	6,497	5,509	18.0%
Other specialist	1,200	1,091	10.0%
General < 250	1,200	1,174	2.2%
National	266,695	246,339	8.3%

The consolidated financial accounts for 2005/06 show staff costs in the sector increasing by 8.2% to a total of £266.7m. These costs represented 32% of the total operating costs incurred by all the organisations. The median staff cost as a percentage of turnover for the sector rose this year by 2% to 25.7%. This shows a change in a previously downward trend of proportionate reductions in staff costs in prior years.

The financial year 2005/06 shows RSLs beginning to adopt new standard accounting practice relating to the valuation and realisation of pension liabilities. The majority of staff employed in pensionable posts in the sector are members of the SFHA or the Strathclyde pension scheme. The actuarial valuation of the total liability for pension costs for the sector has still to be completed and should be reflected in the 2006/07 annual accounts.

RSLs classified as general have shown the least increase in total spend on staff costs. RSLs offering supported accommodation continue to show above inflation increases in total staff costs, while LSVT type organisations show significant above inflation increases.

Explanation of ratios

Ratios	Calculation	Purpose
Financial capacity		
Interest cover (%)	(Operating surplus/(deficit) + housing depreciation + interest receivable – major repairs capitalised – devt admin costs (not covered by allowances) capitalised) / (interest payable + interest capitalised)	To indicate the extent by which the interest payable on loans is covered by cash generated from operations.
Interest cover adjusted (%)	(Operating surplus/(deficit) + housing depn + interest receivable – major repairs capitalised – devt admin costs (not covered by allowances) capitalised + profit/(loss) on sale of assets) / (interest payable + interest capitalised)	To indicate the extent by which the interest payable on loans is covered by cash generated from operations plus cash generated from sales, including RTBs.
Adjusted gross surplus / net debt (%)	(Operating surplus/(deficit) + housing depreciation – major repairs capitalised – devt admin costs (not covered by allowances) capitalised) / net debt	To indicate what percentage of net indebtedness can be repaid from the annual operating surplus, adjusted to a cash basis.
Net debt / adjusted net surplus (years)	Net debt/(net surplus/(deficit) + housing depreciation – major repairs capitalised – devt admin costs (not covered by allowances) capitalised – interest capitalised)	To indicate how many years it would take to repay net indebtedness from annual net surplus, adjusted to a cash basis, after interest payments.
Efficiency		
Voids (%)	Rent loss from voids/gross rents receivable	To show the percentage of income lost as a result of properties being void (unoccupied).
Arrears (%)	Net rental arrears/(gross rents + service charges receivable)	To show the level of rent arrears being carried, after provision for doubtful debt.
Bad debts (%)	Bad debts written off/(gross rents + service charges receivable)	To show the percentage of gross rental & service charge income lost from bad debts.
Staff costs / turnover (%)	Staff costs/turnover (excluding turnover from developments for sale)	To show the staff costs incurred to generate income.
Profitability		
Gross surplus / (deficit) (%)	Gross operating surplus/(deficit) (excluding housing depreciation)/turnover (excluding developments for sale)	To monitor operating performance, before funding commitments.
Net surplus / (deficit) (%)	Net surplus/(deficit) excluding housing depreciation/ turnover (excluding developments for sale)	To monitor operating performance, after sales, tax and funding commitments.

Financing		
HAG & other government (%)	(HAG + other government grants)/(gross fixed housing asset cost – revaluation reserve)	To show the proportion of housing assets funded by grants.
Net debt per unit (£)	Net debt / number of units owned	To show the average amount borrowed, less cash and near cash, to finance each unit owned.
Debt per unit (£)	Debt/number of units owned	To show the average amount borrowed to finance each unit owned.
Net interest per unit (owned) (£)	(Interest payable – interest receivable)/units owned	To indicate the average cost of financing for each unit owned. A negative result indicates that the RSL has more cash than debt.
Net debt : net rent (x)	Net debt/(gross rents receivable – rent losses from voids)	To indicate the multiplier of net debt/net rental income after void loss.
Effective interest rate (%)	(Interest payable – interest receivable)/net debt	To review the average cost of financing.

Growth		
Turnover growth (%)	Current year turnover – prior year turnover/prior year turnover	To monitor growth in turnover.
Operating cost growth (%)	(Current year operating costs (excluding housing depreciation) – prior year operating costs (excluding housing depreciation))/prior year operating costs (excluding housing depreciation)	To monitor growth in operating costs.
Fixed asset growth (%)	(Current year net fixed assets – prior year net fixed assets)/prior year net fixed assets	To monitor growth in fixed assets.
Net debt growth (%)	(Current year net debt – prior year net debt)/prior year net debt	To monitor growth in net debt.
Capital & reserves growth (%)	(Current year capital & reserves – prior year capital & reserves)/prior year capital & reserves	To monitor growth in capital and reserves.
Definition of debt	All loans, overdrafts & bridging or development finance	
Definition of net debt	All loans, overdrafts & bridging or development finance minus cash and current asset investments	

Financial costs & ratios 2005/06

RSL Name	Interest cover %	Interest cover adj. %	Net debt per unit £	Debt per unit £	Gross surplus/(deficit) %	Net surplus/(deficit) %	Staff costs /turnover %	Mgt per unit £	Direct maint. per unit £
LA Whole Stock Transfers									
Dumfries and Galloway HP	29	60	3,932	4,146	2	(5)	19	717	1,516
Glasgow HA Ltd, The *	0	0	(442)	426	(27)	(25)	23	1,271	778
Scottish Borders HA Ltd	(84)	(7)	3,579	3,933	(10)	(10)	32	630	1,568
LSVT > 1000 units									
Abertay HA Ltd	136	171	5,154	6,552	19	9	19	580	1,416
Ayrshire Housing	145	168	16,115	18,459	50	29	18	706	679
Berwickshire HA Ltd	126	160	10,057	10,658	24	12	24	796	949
Clyde Valley HA Ltd	125	168	12,230	12,776	33	16	22	692	971
Cube HA Ltd *	179	181	4,243	4,735	23	11	31	982	820
Cumbernauld HP Ltd	(67)	(40)	4,608	4,924	(8)	(16)	21	859	1,786
Fife Special HA Ltd	71	103	10,345	10,870	33	11	19	723	1,303
Glen Oaks HA Ltd	143	153	6,816	7,846	26	11	29	979	463
Irvine HA Ltd	142	154	11,121	11,395	42	16	26	1,194	351
Knowes HA Ltd	179	194	6,788	6,977	21	11	24	734	1,171
Linstone HA Ltd	52	86	7,894	9,321	11	(3)	26	730	1,404
Melville HA Ltd	116	136	8,970	10,175	26	14	18	941	1,166
Paragon HA Ltd	87	112	9,483	10,980	21	3	20	778	1,090
Waverley Housing	122	136	12,756	14,097	36	11	22	767	752
LSVT < 1000 units									
Aberdeenshire HP	122	122	20,687	21,860	40	9	25	958	410
Antonine Housing Co-op Ltd	53	123	11,435	13,316	14	7	23	934	1,303
Atrium Homes	136	161	10,991	12,224	32	15	21	672	1,163
Ayrshire North Community Housing Organisation	92	121	11,315	11,829	22	5	26	1,038	1,040
Bellsmyre HA Ltd	144	157	4,796	5,870	27	12	24	680	846
Bridgewater HA Ltd	155	188	5,880	11,344	23	15	25	952	1,143
Cadder HA Ltd	203	212	5,604	7,626	33	20	24	955	669
Hillhead HA 2000	0	0	(1,796)	797	27	33	16	830	1,610
Homes for Life HP	224	224	12,745	16,280	58	36	23	649	219
Larkfield HA Ltd	68	67	13,586	13,650	20	(10)	20	960	1,462
Manor Estates HA Ltd	109	144	9,970	11,687	19	9	19	916	1,567
Moray HP Ltd, The	151	151	8,082	19,089	45	20	29	1,188	380
Ore Valley HA Ltd	112	113	9,257	10,608	26	3	21	350	1,152
Port Glasgow HA Ltd	80	134	6,577	9,443	12	6	21	1,321	1,087
Shire HA Ltd	73	94	12,194	12,474	22	0	19	608	1,590
Thistle HA Ltd *	68	116	5,766	6,451	7	2	20	964	1,435
General > 1000 units									
Albyn Housing Society Ltd	149	199	9,883	10,861	28	19	24	863	679
Almond HA Ltd	251	278	6,969	7,624	41	30	15	615	876
Angus HA Ltd	113	124	13,390	13,775	32	7	27	803	617
Castlehill HA Ltd	98	111	6,629	8,441	13	3	37	769	882
Castle Rock HA Ltd	133	140	10,474	10,474	23	75	23	593	892
Cloch HA Ltd	118	120	8,962	10,417	28	9	31	854	944

* Management costs include an element of multi-storey cost.

Financial costs & ratios 2005/06 (cont)

RSL Name	Interest cover %	Interest cover adj. %	Net debt per unit £	Debt per unit £	Gross surplus/ (deficit) %	Net surplus/ (deficit) %	Staff costs /turnover %	Mgt per unit £	Direct maint. per unit £
Clydebank HA Ltd *	(312)	64	(503)	4,207	(39)	(4)	22	813	591
Cunninghame HA Ltd	132	136	13,728	14,452	32	9	32	1,039	458
Dunedin Canmore HA Ltd	111	128	12,102	12,145	23	6	0	1,373	601
Eildon HA Ltd	163	199	5,828	7,475	22	16	45	826	395
Elderpark HA Ltd	333	333	(855)	926	13	13	33	896	592
Fyne Homes	119	141	7,654	8,701	20	8	37	1,080	576
Govanhill HA Ltd	570	649	90	1,908	19	22	28	816	921
Govan HA Ltd	23	44	1,950	1,981	1	(3)	36	708	1,261
Grampian HA Ltd	96	145	12,015	12,601	19	8	25	656	1,016
Hillcrest HA Ltd	118	124	5,884	7,554	28	14	25	659	702
Home in Scotland Ltd	257	278	7,054	7,251	22	17	28	549	416
Kingdom HA Ltd	231	241	8,204	10,918	30	19	43	648	681
Langstane HA Ltd	122	122	8,478	9,435	22	6	26	778	680
Link Group Ltd	165	173	5,572	6,214	27	13	10	688	861
Linthouse HA Ltd	89	101	(459)	2,097	0	0	36	1,022	861
Loreburn HA Ltd	203	211	8,964	11,362	36	22	26	667	557
New Gorbals HA Ltd *	204	253	4,147	5,384	17	14	26	1,376	817
North Glasgow HA Ltd *	257	272	4,862	7,052	28	22	26	755	635
Oak Tree HA Ltd	194	192	6,838	7,987	34	16	20	622	835
Ochil View HA Ltd	150	160	13,590	14,312	45	20	24	760	461
Paisley South HA Ltd	108	119	5,889	7,752	17	4	21	882	1,090
Parkhead HA Ltd	242	246	5,331	7,449	33	22	31	767	481
Partick HA Ltd	129	220	2,485	3,792	4	8	22	889	1,278
Perthshire HA Ltd	161	180	11,661	12,508	40	21	28	742	371
Port of Leith HA Ltd	304	329	3,847	6,271	36	30	22	565	533
Queens Cross HA Ltd *	108	174	2,691	5,863	8	6	38	706	1,272
Sanctuary (Scotland) HA Ltd *	144	148	27,325	27,461	46	15	0	940	381
Shettleston HA Ltd	185	253	5,148	5,933	25	21	32	686	842
Tenants First Housing Co-op Ltd	100	114	9,192	12,066	26	5	27	931	893
Thenew HA Ltd	160	195	6,189	7,623	24	16	26	874	763
West of Scotland HA Ltd	178	224	7,608	9,554	30	22	24	931	858
Williamsburgh HA Ltd	362	360	2,232	5,174	44	37	28	784	461
General 250 – 1000 units									
Ardenglen HA Ltd	187	187	6,332	9,106	25	14	25	989	899
Arklet HA Ltd	139	139	12,922	14,330	19	6	33	851	275
Barrhead HA Ltd	117	123	11,954	12,424	33	9	27	1,237	494
Blairtummock HA Ltd	123	123	9,916	12,434	31	10	38	612	439
BT Loch Aillse agus an Eilein Sgitheanaich Ltd-Lochalsh&Skye	119	149	9,129	11,502	22	11	32	849	748
Calvay HA Ltd	232	235	2,095	4,304	16	11	34	880	673
Cassiltoun HA Ltd	246	246	5,045	7,266	37	25	26	945	571
Cathcart & District HA Ltd	(104)	(104)	3,084	5,889	(10)	(19)	45	1,174	1,014
Cernach HA Ltd	177	177	6,596	11,472	29	16	29	1,332	416
Charing Cross HA Ltd	155	297	(771)	3,350	7	16	32	1,091	871
Clydesdale HA Ltd	73	150	6,025	6,906	12	10	24	993	1,069
Copperworks Housing Co-op Ltd	10	5	2,268	5,207	(1)	(9)	30	1,017	1,202
Cordale HA Ltd	127	127	11,596	12,622	39	16	28	884	417
Craigdale HA Ltd	196	196	7,499	11,886	45	26	21	986	474

* Management costs include an element of multi-storey cost.

Financial costs & ratios 2005/06 (cont)

RSL Name	Interest cover %	Interest cover adj. %	Net debt per unit £	Debt per unit £	Gross surplus/ (deficit) %	Net surplus/ (deficit) %	Staff costs /turnover %	Mgt per unit £	Direct maint. per unit £
Dalmuir Park HA Ltd	186	186	(42)	2,416	5	4	27	937	1,050
Drumchapel Housing Co-op Ltd	(4)	(4)	7,025	9,203	(2)	(17)	34	1,160	1,277
Dunbritton HA Ltd	229	235	12,056	14,297	46	29	25	939	444
Easthall Park Housing Co-op Ltd	185	185	10,198	12,547	44	21	24	747	478
East Kilbride and District HA Ltd	216	216	7,160	9,866	38	22	21	881	710
East Lothian HA Ltd	126	142	8,935	12,005	30	13	26	869	950
Faifley HA Ltd	129	129	8,385	11,841	26	8	23	1,000	824
Fairfield Housing Co-op Ltd	250	250	(813)	5,057	32	25	26	452	797
Ferguslie Park HA Ltd	208	206	5,663	7,019	28	15	25	1,171	761
Forth HA Ltd	138	134	14,876	17,433	48	13	28	934	204
Gardeen HA Ltd	192	192	6,360	9,549	33	18	27	1,008	449
Glasgow West HA Ltd	238	238	(60)	3,541	12	10	28	961	1,227
Glen HA Ltd	187	187	5,263	7,952	29	20	22	650	1,074
Hawthorn Housing Co-op Ltd	518	518	287	5,238	30	24	30	686	622
Hjaltland HA Ltd	96	94	12,350	13,029	15	5	26	1,040	989
Horizon HA Ltd	148	148	10,574	12,276	32	11	33	826	630
Kendoon HA Ltd	210	210	13,055	14,611	59	33	22	721	378
Kingsridge Cleddans HA Ltd	214	214	8,934	11,480	51	31	23	791	265
Lanarkshire HA Ltd	192	206	8,822	10,123	44	25	30	855	244
Lochaber HA Ltd	153	201	10,809	12,339	41	31	37	637	445
Lochfield Park HA Ltd	166	166	10,664	13,231	40	18	20	742	387
Maryhill HA Ltd	184	205	1,804	4,221	19	14	34	873	865
Milnbank HA Ltd	138	138	6,077	8,302	21	6	43	958	515
Molendinar Park HA Ltd	105	129	4,553	5,197	15	4	25	499	1,132
Muirhouse HA Ltd	202	202	10,110	13,336	53	25	14	663	628
North View HA Ltd	119	121	11,394	12,412	29	5	24	930	826
Orkney HA Ltd	187	220	6,103	10,919	37	28	35	938	451
Pentland HA Ltd	206	206	9,045	9,291	31	16	33	1,103	889
Pineview Housing Co-op Ltd	189	194	9,408	12,853	37	22	26	827	491
Prospect Community Housing	113	113	9,154	10,238	22	3	28	989	1,011
Provanhall HA Ltd	251	252	6,024	8,383	35	25	30	834	338
Reidvale HA Ltd	154	156	(664)	724	3	2	25	828	1,480
Rosehill Housing Co-op Ltd	442	443	495	7,208	58	51	19	487	425
Rural Stirling HA Ltd	195	209	10,800	12,195	46	27	0	866	233
Rutherglen and Cambuslang HA Ltd	111	125	10,240	13,018	27	2	25	1,011	912
Southside HA Ltd	227	226	4,069	6,739	20	12	28	950	1,077
Spire View HA Ltd	165	165	6,799	9,858	31	14	20	805	689
Tollcross HA Ltd	227	236	(1,275)	1,000	2	3	25	808	1,316
Trafalgar HA Ltd	169	169	5,121	9,911	34	20	32	915	420
Wellhouse HA Ltd	156	156	11,632	13,475	42	17	24	1,025	313
West Granton Housing Co-op Ltd	169	169	14,081	15,143	39	16	26	923	571
West Highland HA Ltd	168	168	9,852	13,410	53	29	30	707	368
West Whitlawburn Housing Co-op Ltd *	0	0	(1,911)	0	(5)	(1)	53	1,816	423
Whiteinch and Scotstoun HA Ltd	410	427	220	1,292	9	10	33	993	990

* Management costs include an element of multi-storey cost.

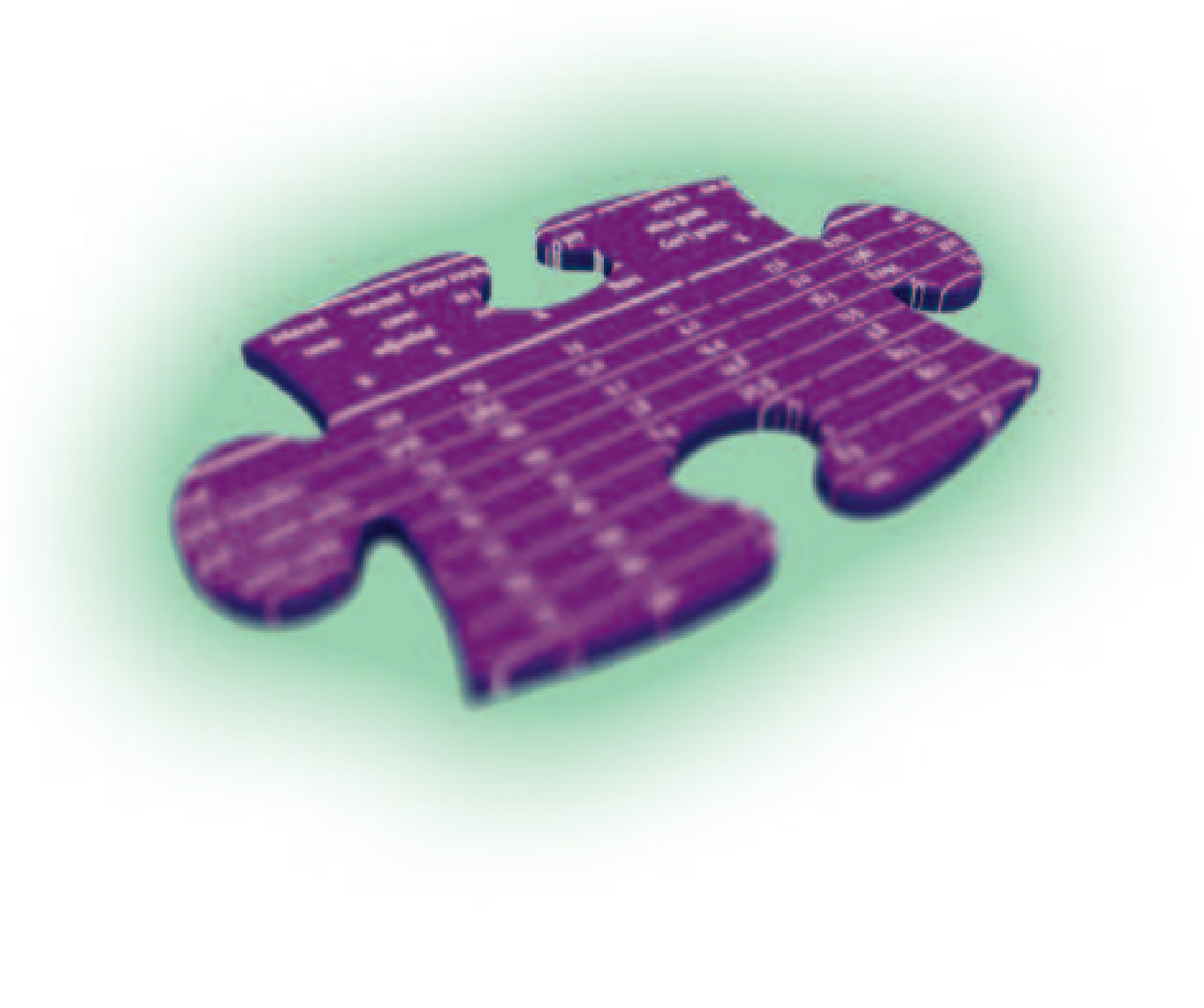
Financial costs & ratios 2005/06 (cont)

RSL Name	Interest cover %	Interest cover adj. %	Net debt per unit £	Debt per unit £	Gross surplus/ (deficit) %	Net surplus/ (deficit) %	Staff costs /turnover %	Mgt per unit £	Direct maint. per unit £
Wishaw and District HA Ltd	119	122	8,600	10,187	26	5	32	908	736
Yoker HA Ltd	25,047	25,000	(3,102)	0	25	29	16	712	1,282
Yorkhill HA (1988) Ltd	498	514	166	1,639	23	21	38	1,046	589
General < 250 units									
Abronhill HA Ltd	(29)	(15)	8,147	10,701	(12)	(28)	20	955	1,777
Barra and Vatersay HA Ltd	183	183	17,464	19,786	45	21	0	864	273
Beechwood Housing Co-op Ltd	169	169	5,745	10,529	36	16	0	569	1,192
Berneray HA Ltd	523	523	(2,400)	5,538	58	55	0	875	125
Blochairn Housing Co-op Ltd	41	42	3,979	6,488	1	(9)	23	1,335	1,021
Blythswood HA Ltd	0	0	(7,741)	0	49	62	0	300	739
Broomhouse HA (1986) Ltd	(242)	(242)	(4,047)	1,825	(45)	(39)	24	802	1,606
Buidheann Taigheadais na Meadhanan (South Uist HA) Ltd	252	252	5,185	7,765	55	35	0	636	382
Capital City Homes Ltd	(13)	(13)	45,748	47,835	(14)	(101)	0	981	605
Forgewood Housing Co-op Ltd	31	31	6,596	7,418	9	(5)	40	1,013	947
Four Walls Co-op HA Ltd	(64)	(64)	18	5,136	(10)	(17)	0	2,236	1,182
Garrion Peoples Housing Co-op Ltd	135	136	4,950	6,142	21	6	38	701	821
Hunters Hall Housing Co-op Ltd	82	82	772	5,582	4	(4)	31	1,726	607
Kincardine Housing Co-op Ltd	151	177	4,605	8,287	18	12	0	867	1,578
Langstane (SP) HA Ltd	396	747	(13,103)	8,108	59	185	0	460	0
Lister Housing Co-op Ltd	0	0	(3,449)	0	27	31	23	1,027	1,022
Muirneag HA Ltd	215	215	13,203	15,278	52	29	0	571	143
New Lanark Association Ltd	0	0	(4,898)	0	(21)	(14)	0	1,211	1,389
Ruchazie HA Ltd	140	140	12,923	13,602	32	9	29	1,143	369
Strathclyde (Camphill) Housing Society Ltd	(38)	(38)	(6,017)	7,508	(26)	(22)	8	3,845	0
Taigean Ceann a Tuath na Hearadh (North Harris HA) Ltd	199	199	10,007	13,836	58	31	0	786	286
West Lothian HP Ltd	201	201	20,013	21,948	68	35	7	678	381
Older Clients									
Bield HA Ltd	303	310	244	2,328	6	6	49	640	1,096
Cairn HA Ltd	137	189	9,275	9,402	25	17	35	1,099	547
Hanover (Scotland) HA Ltd	164	170	4,279	5,381	10	5	40	738	968
Isaac S Mackie HA Ltd	(1,688)	(1,688)	(2,340)	1,305	(41)	(39)	17	450	2,450
Servite HA Ltd	146	146	6,778	7,473	18	8	34	514	791
Trust HA Ltd	296	600	2,357	3,154	9	17	47	993	657
Viewpoint HA Ltd	182	182	1,794	4,756	6	4	49	621	941
Supported Accommodation									
Ark HA Ltd	(1,281)	(1,281)	433	1,613	(5)	(1)	85	783	1,383
Barony HA Ltd	135	135	12,761	13,205	6	2	71	1,565	672
Blue Triangle (Glasgow) HA Ltd	1,017	1,003	(10,886)	4,174	3	3	73	3,268	826
Key HA Ltd	435	435	(10,581)	4,450	1	2	85	820	1,250
Loretto HA Ltd	273	274	3,551	6,538	7	5	62	861	604
Margaret Blackwood HA Ltd	1,174	1,174	(1,502)	582	17	17	49	862	746
Outlook Housing Ltd	0	0	(10,726)	0	(13)	(8)	76	1,645	645
St John (Glasgow) HA Ltd	0	0	(2,432)	0	(15)	(13)	28	1,320	1,600

Financial costs & ratios 2005/06 (cont)

RSL Name	Interest cover %	Interest cover adj. %	Net debt per unit £	Debt per unit £	Gross surplus/ (deficit) %	Net surplus/ (deficit) %	Staff costs /turnover %	Mgt per unit £	Direct maint. per unit £
Other Specialist RSL									
Aberdeen Soroptimist HS Ltd	242	311	(5,553)	4,713	39	47	0	793	0
Minerva HA Ltd	322	322	(11,813)	2,569	0	1	75	1,188	813
Scottish Veterans HA Ltd	590	590	(370)	0	12	16	44	1,409	779
Soroptimist Housing (Dundee) Ltd	0	0	(21,506)	0	5	22	40	835	59

How to contact us:
We welcome comments on *The Digest*. Please contact the Business Analysis Unit, Regulation & Inspection, Communities Scotland. Telephone 0141 226 4611



CSCID/CSCC0558 – April 2007

Regulation & Inspection
Communities Scotland, Highlander House, 58 Waterloo Street, Glasgow G2 7DA

www.communitiesscotland.gov.uk

SCOTTISH EXECUTIVE

Regulation & Inspection Communities Scotland