



THE SCOTTISH  
HOUSING  
REGULATOR

## GUIDANCE NOTE

**To:** All Registered Social Landlords (RSLs)

**Subject:** Assessing the Financial Viability of Registered Social Landlords Information Requirements

**Issued by:** The Scottish Housing Regulator

**Ref no:** SHR 13

**Date:** April 2008 (First issued January 2005)

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### Summary

This guidance note supersedes Scottish Homes' Guidance Note 98/18 and Communities Scotland's Guidance Note 2002/05. It should be read in conjunction with the policy document "Assessing the Financial Viability of Registered Social Landlords" dated January 2005.

This guidance note includes the information requirements for the purpose of assessing the financial viability of Abbeyfield Societies & management only RSLs. The policy document referred to above does not extend to these RSLs as we have separate arrangements with Abbeyfield Scotland & the management only RSLs. Our information requirements for Abbeyfields remain unchanged.

The Guidance Note is effective immediately.

For any references to Communities Scotland (or Scottish Homes) please read the Scottish Housing Regulator.

If you have any questions about this guidance, you should direct them to:

**The Scottish Housing Regulator**

**Highlander House**

**58 Waterloo Street**

**GLASGOW**

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## 1. Background

- 1.1. Communities Scotland's regulatory framework includes the requirement to ensure that RSLs meet performance standards. This guidance note relates to Guiding Standard for RSLs 4.6, "Financial Viability – we are a financially sound and viable business".
- 1.2. Our approach to the assessment of financial viability for the majority of RSLs is contained within our policy document. This guidance note is intended to advise all RSLs of our **annual** financial information requirements, to assist us in our role as regulator.
- 1.3. We have reviewed our information requirements and are asking for more forward looking information from larger and developing RSLs.

## 2. Information Requirements

- 2.1. We will collect standard information on an annual basis
- 2.2. For new RSLs, or those RSLs that we are in close contact with, we may request additional information.
- 2.3. Longer-term strategic and financial plans will be reviewed during inspection, and are excluded from the annual information submission requirements of this Guidance Note.

## 3. Annual Information Requirements - Commencement of the Financial Year (excludes management only RSLs & Abbeyfields)

- 3.1. At the beginning of each financial year, we require the submission of **5 Year Online Financial Projections** of income & expenditure and balance sheets from larger and developing RSLs, together with a statement of viability as explained in the policy document. The timescales for submission of these projections is between April & June of each year. This timescale also applies to the small number of RSLs with a non-March year end. This is a new requirement and will be rolled out in two phases:
  - From April 2005 – RSLs with more than 1,000 units
  - From April 2006 onwards – RSLs with more than 250 units and RSLs who are developing (of any size)

3.2. For smaller and non-developing RSLs, we will continue to require a copy of the **Annual Budget** with full narrative, as presented to the Governing Body. This should be submitted within one month of the commencement of the new financial year. We will continue to collect budgets in 2005 for the financial year 2005/06, from RSLs with more than 250 units and RSLs that are developing. This is a transitional arrangement, for one year only:

- From April 2005 - RSLs with less than 1,000 units, who are not submitting 5 year online projections
- 2006 - RSLs with less than 250 units who are not developing
- From April 2007 onward, same arrangements as 2006

#### 4. Annual Information Requirements - Post Year End

4.1. These information requirements should be submitted within 6 months of an RSL's financial year-end

##### 4.2. Annual Accounts

RSLs, including Abbeyfield Societies, are under a statutory obligation to submit Annual Accounts to Communities Scotland, within 6 months of the financial year-end. **Two Copies** should be submitted to the Business Analysis Unit, one of which should be **signed** (the signed copy should be original, not photocopied).

##### 4.3. Analysis of Operating Costs (excludes management only RSLs & Abbeyfields)

A detailed "Analysis of Operating Costs" should be submitted with the Annual Accounts within 6 months of the financial year-end. This should be completed in line with the form at Appendix 2. An electronic copy can be downloaded from our web-site at [www.communitiesscotland.gov.uk](http://www.communitiesscotland.gov.uk). While there is no requirement to have this statement audited, it must be agreed to the Operating Costs, as stated in the Annual Accounts.

The purpose of this return is:

- a) to allow comparison of management & maintenance administration costs, on a "per unit" basis;
- b) to collect detailed maintenance costs for the sector as a whole; and
- c) to break down the costs as presented in the Annual Accounts more specifically, for the purpose of further analysing the costs of RSLs' core and diversified activities.

It should be noted that the information as detailed in this format is intended to link closely with the requirements of the next version of the Accounting Order.

**4.4. Auditor's Management Letter and Response from RSL (excludes Abbeyfields)**

A management letter is provided to an RSL as part of the statutory audit. A copy of this and the RSL's response should be submitted with the Annual Accounts. Occasionally, auditors will provide a verbal report to the Governing Body instead of a letter. If this is the case, a minute of this record should be submitted with the accounts.

**5. Additional Annual Information Requirements - Community Ownership RSLs (local authority stock transfers)**

5.1. Community ownership RSLs are required to submit 30 year cashflow projections, in line with lender requirements. The timescale for submission of these cashflows will be agreed with individual RSLs.

**6. Annual Information Requirements - RSLs operating in Formal or Informal Groups**

6.1. Where an RSL is part of a formal or informal group, Annual Accounts for related organisations that are not registered with Communities Scotland should form part of the annual accounts submission requirements e.g.

- The RSL is a subsidiary and the parent organisation is not registered with CS
- The RSL is a parent organisation with a subsidiary that is not registered with CS
- The RSL is part of an informal group and shares staff/services/Committee members with another organisation that is not registered with CS.

It should be noted that a related organisation that is also an RSL registered with Communities Scotland will submit its own financial information.

**7. Additional Information Requirements**

7.1. For the majority of RSLs, we expect to collect only the standard information as required at sections 3 to 5 of this Guidance Note.

7.2. There are instances when we will wish to have closer contact with an RSL and in these circumstances, we will require additional information. We will agree these information requirements with the RSL. Some examples of this additional information may be:

- Long-term projections
- Cashflows
- Managements accounts
- Information in relation to a particular issue

## **8. Implementation**

- 8.1. This guidance has immediate effect. For ease of reference, a table of information requirements is at Appendix 1.

### **CSGN 2005/01 Attachments:**

Appendix 1 - Table of Annual Information Requirements

Appendix 2 - Analysis of Operating Costs, pro-forma

Appendix 3 - Analysis of Operating Costs, notes on completion

Communities Scotland Guidance Note 2005/01  
Appendix 1 - Annual information requirements

<b>Annual information requirements within 3 months of commencement of the Financial Year</b>	<b>Community Ownership RSLs</b>	<b>RSLs &gt;= 250 units Developing RSLs</b>	<b>RSLs &lt; 250 units not developing</b>	<b>Management only RSLs</b>	<b>Abbeyfields</b>	<b>RSLs operating in groups</b>
5 year online financial projections and statement of viability - 2005	Yes	>1,000 units, Yes	No	No	No	n/a
5 year online financial projections and statement of viability - 2006 onward	Yes	Yes	No	No	No	n/a
<b>Annual information requirements within 1 month of commencement of the Financial Year</b>	<b>Community Ownership RSLs</b>	<b>RSLs &gt;= 250 units Developing RSLs</b>	<b>RSLs &lt; 250 units not developing</b>	<b>Management only RSLs</b>	<b>Abbeyfields</b>	<b>RSLs operating in groups</b>
Annual budget - 2005	No	< 1,000 units, Yes	Yes	Yes	No	n/a
Annual budget - 2006 onward	No	No	Yes	Yes	No	n/a
<b>Annual Information Requirements - Timescales as agreed with RSL</b>	<b>Community Ownership RSLs</b>	<b>RSLs &gt;= 250 units Developing RSLs</b>	<b>RSLs &lt; 250 units not developing</b>	<b>Management only RSLs</b>	<b>Abbeyfields</b>	<b>RSLs operating in groups</b>
30 year cashflow projections	Yes	No	No	No	No	n/a
<b>Annual Information Requirements within 6 Months of Financial Year-End</b>	<b>Community Ownership RSLs</b>	<b>RSLs &gt;= 250 units Developing RSLs</b>	<b>RSLs &lt; 250 units not developing</b>	<b>Management only RSLs</b>	<b>Abbeyfields</b>	<b>RSLs operating in groups</b>
Annual Accounts	Yes	Yes	Yes	Yes	Yes	n/a
Analysis of Operating Costs	Yes	Yes	Yes	No	No	n/a
Auditor's Management Letter and Response	Yes	Yes	Yes	Yes	No	n/a
Annual Accounts for subsidiary /parent/related organisations, that are <b>not</b> registered with Communities Scotland (see paragraph 6.1.)	n/a	n/a	n/a	n/a	n/a	Yes

**Communities Scotland Guidance Note 2005/01 Appendix 2 - Analysis of Operating Costs - Financial Year 2004/05**

**RSL Name:**

<b>A - Letting activities:</b>	Mainstream	Supported	Shared Ownership	Other (specify)	Garages	Housing Units
<b>Number of Units as at Year End:</b>						
Owned and managed						
Managed, not owned						
Owned, managed under agency contract by another organisation						
<b>Total Units, for costs incurred under A - Letting activities</b>						

	Mainstream £,000	Supported £,000	Shared ownr £,000	Other (spec) £,000	Garage costs £,000	Total Costs £,000	Housing costs per unit - £
<b>A - Letting activities:</b>							
A1 - Management costs							
A2 - Services - activities eligible for Housing Benefit							
A3 - Services - activities not eligible for Housing Benefit							
A4 - Maintenance & repairs:							
<i>A4(i) Planned, cyclical &amp; major repairs - Contractors/direct maint costs</i>							
<i>A4(ii) Voids maintenance - contractors/direct maintenance Costs</i>							
<i>A4(iii) Re-Active maintenance - Contractors/direct maintenance costs</i>							
<i>A4(iv) Maintenance overhead or administration costs</i>							
A4 - Total maintenance & repairs costs							
A5 - Bad debts written off - rents and service charges							
A6 - Bad debts written off - other							
A7 - Housing depreciation							
A8 - Impairment							
<b>A - Total expenditure on letting activities</b>							
<b>B - Development &amp; other activities:</b>							
B1 - Wider action/wider role							
B2 - Care & repair							
B3 - Factoring							
B4 - Development activities							
B5 - Supporting People activities							
B6 - Care activities							
B7 - Agency/management services - RSLs							
B8 - Agency/management services - other parties							
B9 - Developments for sale - RSLs							
B10 - Development & improvements for sales - other parties							
B11 - Other (specify activity)							
<b>B - Total expenditure on development &amp; other activities</b>							
<b>A + B = Total operating costs</b>							

## Communities Scotland Guidance Note 2005/01 – Appendix 3

### Notes on Completion of Appendix 2, Analysis of Operating Costs

#### Introduction

These notes have been updated to reflect the changes to the Analysis of Operating Costs for the financial year 2004/05 and should be referred to for all financial years going forward. An additional column has been added to the form to collect the numbers of garages and the costs associated with managing & maintaining these garages or lock-ups.

The data used for the completion of this return should ultimately be agreed to the Operating Costs per the income & expenditure account of the audited annual accounts.

The cost of sales for the disposal of fixed assets should be excluded. This is reported separately in the accounts, as part of the calculation for “Gain or Loss on Sale of Fixed Assets”, in accordance with the current SORP (Statement of Recommended Practice, accounting by registered social landlords).

Important Note: There is no requirement to have this statement validated by the RSL’s auditors, although some RSLs may choose to do so.

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#### Units

The number of units to be disclosed is the units owned/managed as at the financial year-end.

While the “average” number of units would be an appropriate measure for “costs per unit”, it has been agreed that using the number of units at the financial year-end will be easier to compare with :

- APSR data;
- Annual Accounts data; and
- RSLs' internal records

In most cases, using the year-end instead of the average would make very little difference to the “costs per unit” calculations. Where an RSL considers that the use of “average” units would be more appropriate, this should be identified and an explanation provided. The “average” number of units would only be considered appropriate if it varies materially from the year-end units and to use the year-end units would, in the RSL’s view, significantly distort the “costs per unit”.

#### Definition of a Unit

Per the 1999 Accounting Order – “a unit of accommodation means, in the case of supported housing or a hostel, accommodation which is provided for one individual and, in any other case, a dwelling”.

A further interpretation:

1 self-contained - dwelling/household/tenancy	= 1 unit
1 non self-contained - bed space/tenancy/occupancy agreement	= 1 unit

### **Units to be Included**

- All housing stock
- Warden & caretaker accommodation
- Units that are vacant, and will be re-let

### **Units to be Excluded**

- Commercial units
- Units that are vacant, awaiting demolition
- Units being developed
- Developments for resale

### **Shared Ownership Units**

Include all shared ownership units where the RSL holds a stake, whether the stake held by the RSL is 25%, 50% or 75%. Each shared ownership unit should be included as one unit.

### **Garages**

The number of garages or lock-ups should be recorded. It should be noted that these units are excluded from the total number of housing units used to calculate the "housing costs per unit".

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## **A - Number of Units as at year-end, Letting Activities**

### **Owned & Managed**

Include all units that are owned and managed. Where care services are being provided for tenants/occupiers by a third party and housing management services are being provided by the owner RSL, these units should be included.

### **Managed, Not Owned**

Include units that are being managed on behalf of another organisation (possibly an RSL) where rents and service charges are being received and a housing management/maintenance service is being provided.

Exclude units that are being managed on behalf of another organisation, in return for an agency, management or factoring fee.

### **Owned, but managed by another organisation under the terms of an agency agreement**

Include all units owned but managed on your behalf by another organisation under the terms of an agency agreement, in return for the payment of an agency fee. The costs of receiving the agency service (the agency fee) should be included under management, maintenance or other cost heading as appropriate.

Note: The rationale behind this categorisation is to avoid the double counting of units that are owned by one RSL and managed on its behalf by another.

Costs will be incurred by both RSLs, however, to record the costs incurred by both RSLs in Section A would be to double count the expenditure incurred and lead to inaccurate reporting of sector-wide information.

**Exclusions** – Units owned but leased to another organisation where the risks are substantially transferred e.g. full repairing and insuring lease, should be **excluded**.

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## **A - Expenditure on letting activities**

### **A1 - Management costs**

Disclosure of management costs for each different unit type is required.

In general terms, management costs would include only costs that will be covered by rents, and not from other sources of income e.g. revenue grants or Supporting People. Management costs should exclude housing depreciation.

Costs that are incurred by an RSL and recovered from services charges instead of rent should be excluded and reported separately at A2 or A3. The costs associated with supporting people or care should be **excluded** and reported separately at B5 or B6.

### **A2 - Services (activities eligible for Housing Benefit)**

Disclosure of service costs for each different unit type is required. Service costs under A2 should include only costs that are eligible for housing benefit.

### **A3 - Services (activities not eligible for Housing Benefit)**

Disclosure of service costs for each different unit type is required. Service costs under A3 should include only costs that are not eligible for housing benefit. This can be strictly interpreted to mean service costs that relate to the cost of providing a service for an individual and that is recovered through a service charge.

You may provide care services as part of your letting activities, and recover the cost of these services from service charges. These costs should be recorded at A3. Alternatively, care activities may form part of your “other activities” and this would be consistent with guidance on accounting for Supporting People. These costs would be recorded at B6.

### **A4 - Maintenance & Repairs**

All costs that can be directly attributed to carrying out maintenance & repairs should be disclosed for each different type of unit. Sections A4(i), (ii) and (iii) would include:

- Clerk of Works costs that can be directly attributed;
- contractors invoiced costs;
- where the RSL employs its own maintenance team, the direct maintenance team’s costs.

Sections A4(i), (ii) and (iii) would exclude:

- any cost or overhead incurred for the administration of the maintenance programme;
- any allocation of central overhead.

#### **A4(i) - Planned, cyclical & major repairs**

All costs that can be directly attributed to carrying out planned and cyclical maintenance, and major repairs charged to the income & expenditure account. Costs should be disclosed for each different type of unit.

#### **A4(ii) - Voids maintenance**

All costs that can be directly attributed to carrying out voids maintenance should be disclosed for each different type of unit.

Where the costs appear high and the RSL wishes to provide an explanation, please attach comments to the submission with details e.g. the RSL may have a policy of carrying out comprehensive upgrading when properties are empty.

#### **A4(iii) - Re-active maintenance**

All costs that can be directly attributed to carrying out re-active repairs should be disclosed for each different type of unit. Re-active maintenance is general repairs work that is not included in any planned maintenance programme.

#### **A4(iv) - Maintenance overhead/administration costs**

Overhead or administration cost as applied to maintenance & repairs should be disclosed for each different type of unit.

Overheads will include:

- Maintenance staff, clerk of works and other departmental costs, that cannot be attributed directly to maintenance & repairs costs, as defined above;
- General or central overhead allocation as attributed to providing a maintenance and repairs service i.e. share of finance, general administration and other RSL costs.

#### **A5 - Bad debts written off (rents & service charges)**

The amount of rents and service charges considered to be uncollectable and charged to the Income & Expenditure account, should be disclosed for each different type of unit.

The total value will agree to the Rent Losses from Bad Debts as disclosed in the Annual Accounts, as required per the 1999 Accounting Order.

### **A6 - Bad debts written off (other)**

The amount of potential income, excluding rents & service charges, that is considered to be uncollectable and charged to the Income & Expenditure account, should be disclosed for each different type of unit.

### **A7 - Housing Depreciation**

Housing depreciation should be disclosed for each different unit type.

The Annual Accounts, where possible, should also disclose the Housing Depreciation separately. This will be a requirement of the next Accounting Order and your earlier disclosure is encouraged.

### **A8 - Impairment**

Impairment should be recorded separately from housing depreciation. Impairment for all assets, including housing assets, should be disclosed here.

## **A - Total expenditure on letting activities**

There can be some argument over what constitutes letting activities. For the purpose of this exercise, letting activities can be identified as activities that are funded from the rents and service charges applicable to the properties managed.

This should represent the aggregate of all of the costs above, from A1 - Management Costs to A8 - Impairment.

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## **B - Expenditure on development & other activities**

### **B1 - Wider action/Wider role**

Wider action or wider role is increasingly becoming part of the activities of an RSL. Revenue expenditure on wider role activities should be recorded here.

### **B2 - Care & Repair**

A number of RSLs are involved in Care & Repair activities, and these activities are generally funded from Care & Repair revenue grant.

### **B3 - Factoring**

Factoring now forms a substantial proportion of turnover for a number of Scottish RSLs. The costs of providing a factoring service should be disclosed separately. Generally, the cost of providing a factoring service would be covered by the factoring

charges to owners. Costs would include direct and indirect costs, and overheads attributed.

#### **B4 - Development activities**

Costs attributed to development activities and disclosed in the Income & Expenditure account should be included. The costs of providing development services as an agency activity for a third party should be **excluded** and reported as part of agency services costs at B7 or B8. For the avoidance of doubt, development costs that have been capitalised to the Balance Sheet should also be **excluded**.

#### **B5 - Supporting People activities**

Enhanced housing management costs can generally be attributed to supported tenancies. The service for these supported tenants is generally over and above that required to sustain a general tenancy and will generate additional costs. These costs are now being funded through Supporting People.

#### **B6 - Care activities**

A number of RSLs may also be involved in care activities. These care activities may be funded from sources other than Supporting People. Where an RSL provides care that is funded from service charges and considers this care to be part of their letting activities, the costs may alternatively be recorded at A3.

#### **B7 - Agency/management services - RSLs**

The provision of agency or management services between RSLs is common practice, however, the level of activity has not been established. We wish to have a record of the activity between RSLs and this should be recorded at B7. Services provided to non-RSLs should be recorded at B8.

The costs attributed to providing agency or management services may be in relation to:

- management;
- maintenance;
- development;
- support & care; or
- other.

The costs should be inclusive of:

- staff costs;
- direct overhead; and
- central overhead.

Agency services for management may include expenditure relating to accommodation managed but not owned or leased by the RSL, in consideration for an agency fee and not rental income.

The costs of providing factoring services should be excluded, and disclosed at B3.

### **B8 - Agency/management services - other parties**

Some RSLs provide agency services to non-RSLs. The notes for B7 above should be applied when completing this section.

### **B9 - Developments/improvements for sale - RSLs**

This is an area of activity that has expanded between RSLs in recent years and we are seeing more development and refurbishment work being carried out in partnership between RSLs. The values being accounted for can be substantial and it is important to capture the cost of this activity separately. The “cost of sale” element of the development or refurbishment work will be included as part of the total operating costs and should be recorded here.

### **B10 - Developments/improvements for sale - other parties**

RSLs may become involved in development and refurbishment activities that result in sales being made to parties outwith the RSL sector. The “cost of sale” element of the development or refurbishment work will be included as part of the total operating costs and should be recorded here.

### **B11 - Other Costs (specify activity)**

Any costs relating to “other” activities that cannot be allocated to a defined expense category between A1 & B10 should, where material, be separately identified here. For the purposes of this exercise, material costs are costs that have a value of £50,000 or 5% of Operating Costs, whichever is lower.

Any costs relating to leased units that have been **excluded** from the number of units at section A, may be included in section B11.

Note: you may add rows to the spreadsheet if you have more than one material activity that should be separately identified.

## **B - Total Expenditure on Development & Other Activities**

This should represent the aggregate of all of the costs above, from B1 - Wider Action/Wider Role to B11 - Other Costs.

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## **A + B = Total Operating Costs**

The Total Operating Costs in Appendix 2, Analysis of Operating Costs should agree with the Operating Costs as disclosed in the Income & Expenditure Account of the audited Annual Accounts and will be the aggregate of:

- A - Total expenditure on letting activities
- B - Total expenditure on development and other activities

For the avoidance of doubt, costs allocated against the Profit/(Loss) on Sale of Fixed Assets do not form part of the Operating Costs of the Income & Expenditure account.

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## **Reconciliation with Annual Accounts**

Overall, the total costs will agree with the operating costs as presented in the annual accounts:

- A1 Management costs = Management costs, as presented in the Annual Accounts

Note: we would request that Housing Depreciation is disclosed separately in the Annual Accounts, and is excluded from Management Costs. See notes A1 & A7 above.

- A2 Services, activities eligible for Housing Benefit + A3 Services, activities not eligible for Housing Benefit = Services, as presented in the Annual Accounts
- A4 Total Maintenance & Repairs Costs = Routine Maintenance + Major Repairs, as presented in the Annual Accounts
- A5 Bad debts written off, rent & service charges = Rent Losses from Bad Debts, as presented in the Annual Accounts

Where the costs disclosed in any individual category e.g. A1 management costs differ from those disclosed in the annual accounts, a reconciliation must be provided.

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## **Comments**

You may consider it useful to submit comments as part of your return. We would welcome any additional information to support the data provided.