

RSL TECHNICAL UPDATE

SPRING 2009

ALEXANDER SLOAN CHARTERED ACCOUNTANTS



The recession will have an impact on most businesses and RSLs will not escape unscathed. We may find that rules and assumptions that previously held true in the past, will no longer apply. The financial landscape has changed and in order to minimise the impact of the downturn RSLs will have to change with it.

Loan Finance

It is safe to say that the cost of finance for RSLs will increase. The current very low interest rates to an extent disguise this, but margins have increased and banks are increasing or introducing charges to increase the cash inflows to them. Margins on lending are unlikely to return to 'normal' anytime soon. Therefore it may be necessary to re-examine business plans in light of this new reality.

Banks will be more risk averse in the future and one consequence of this is likely to be increased

Phil Morrice outlines the impact of the current economic woes on RSLs and tries to complete the article without using the expressions 'credit crunch' or 'credit quake'

scrutiny of RSLs business plans when RSLs seek new finance and management accounts for ongoing facilities.

Loan Covenants

Banks are taking an increasingly hard-line approach to compliance with loan covenants. Breaking these loan conditions has been used by lenders as a reason to impose less favourable loan terms on their customers. It is essential that RSLs monitor compliance with loan covenants and engage with their lenders (and the regulator) early if a breach of a covenant is likely. The importance of this is emphasised by the fact that the regulator has recently issued an amended SHR 25 – Notifiable Events, which requires any breach, or potential breach to be notified to the regulator, rather than the previous guidance that required any 'material' breach to be notified.

RSLs have managed to secure very favourable loan terms in recent years. The difficulty in the current climate will be in retaining these terms.

Future Cuts?

The government is committed to spending its way out of the current recession. However, at some point in the future this level of borrowing will have to reduce and this is likely, at least in part, to be achieved through cuts in public spending. RSLs will therefore have to consider the potential impact of this on business plans and how this business risk can be managed effectively.

Making the Best of a Bad Deal

Rent Increases

RPI for January 2009, the inflation measure commonly used as a basis in determining rent increase levels stood at 0.1, its lowest level since 1960. Some predictions suggest that RPI will fall as low as -1.7% by July. This may present a problem for RSLs in determining rent increases that are ordinarily based on RPI in December. This rate of inflation may not be comparable to the actual rate of inflation on the RSL's costs and as a result rent increase may have to rise substantially above RPI to cover costs and this may be badly received by tenants when the rent increase is put out to consultation.

“It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change.”

Charles Darwin

Cash on Deposit

Low interest rates are providing very low returns for deposits. RSLs should therefore consider whether or not it is possible to put some funds on deposit for longer periods to attract a better return.

Or bearing in mind that VAT is at a temporarily low level, and both inflation and interest rates are low, whether this is the time to invest surplus funds in existing housing by bringing forward planned maintenance spending, especially to take advantage of the lower VAT rate.

It is certainly worthwhile looking at cash held on deposit for which there is no immediate use. If the cash is being held for 'a rainy day' - then this is a rainy day.

Conclusion

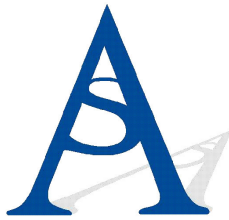
In summary, in order to minimise the impact of the recession it will be necessary for RSLs to reassess the threats and opportunities in their external environment and respond to the changes. The bad news has been well publicised, but there are opportunities available for RSLs. Issues to be considered include:

- Treasury Management – Are you making the best use of our cash balances – or is it merely an idle asset that could be put to better use?
- Major Repairs – Does the current economic climate (Lower VAT, depressed construction market etc.) give RSLs opportunities to procure more competitive rates for planned maintenance?
- Finance – Do our business plans comply with loan covenants throughout and are we doing what we need to 'protect' favourable terms that were negotiated in the past.
- Risk Management—have the risk management strategy and risk tables been revisited to take account of changes in business risks
- Business Plans—have amendments underpinning plans been revised to comply with the changing environment.

With the current economic circumstances in mind Alexander Sloan are carrying out financial health checks. The purpose behind these are to provide clients with assurance that all the necessary controls, policies and procedures are in place and reducing financial risks to an acceptable level. Further information can be obtained from:

Web: www.alexandersloan.co.uk

Email: rsl@alexandersloan.co.uk



News of Alexander Sloan's updated RSL Accounts Generator

2009 Accounts Generator

Model Accounts

We at Alexander Sloan have produced a model set of RSL Accounts for many years. This service has been invaluable to clients in producing financial statements. It is a measure of its quality that non-clients and other firms of auditors have also used it in the past.

Next Level

We have decided to take the model accounts to the next level. We have produced a MS Excel workbook that will generate a set of lead schedules and a full set of financial statements for an RSL.

We have tested the accounts generator successfully on a number of clients and are confident that with only minor amendments it should be able to produce draft financial statements for the majority of Scottish RSLs.

Advantages

- Should reduce the time spent in producing financial statements
- Generates a draft cash flow statement
- Ensures a higher degree of compliance with the SORP and Accounting Order
- Easy to use and has a full set of instructions
- Arithmetic accuracy built in
- Produces lead schedules that are consistent with the financial statements
- Built in audit checks
- Can be linked to other spreadsheets to produce summary reports for Committee
- Spreadsheet rather than Word Processor driven
- **Free** to external audit clients of Alexander Sloan

Availability

The Accounts Generator will be adapted and provided to external audit clients of Alexander Sloan in good time to prepare financial statements for audit, **free of charge**.

The template is available to other RSLs on request by contacting rsl@alexandersloan.co.uk. A fee is chargeable to non-clients of £250 (exc. VAT) (a £50 discount is available to clients who are internal audit clients). This fee includes:

- Updating the template to include comparative figures
- Tailoring the template to suit your requirements
- One hour's free support

Additional support will be chargeable at Alexander Sloan's normal hourly rates.

It should be noted that the accounts generator cannot without extensive re-formatting produce consolidated accounts.

Currently, the template has only been provided to those clients with December year ends. We will provide the template to other clients when we receive the pension disclosure note for 2009 from the Pensions Trust.

Security

A substantial amount of time and effort has been invested in producing this product. The template will be extensively protected by passwords to prevent its widespread, unregistered use. In order to use the template the user will have to confirm that it is a registered copy. If the template is not a legitimate version a number of pre-set security measures will be activated including changing standard text, which will negate any benefit of using the template.

Website

More information including the instruction manual will be available from link below



Contact Details:

If you would like any further information on any of our services or anything covered in this leaflet please contact us at:

E-Mail: rsl@alexandersloan.co.uk:

Phone: (0141) 204 8989

Fax: (0141) 248 9931

Website: www.alexandersloan.co.uk/housing.htm

Glasgow Office

38 Cadogan Street, Glasgow, G2 7HF

Edinburgh Office

1 Atholl Place, Edinburgh, EH3 8HP

**PLEASE NOTE OUR NEW GLASGOW OFFICE'S
CONTACT DETAILS**



ABOUT ALEXANDER SLOAN

We are one of the largest auditors of Scottish Registered Social Landlords. Housing Associations are a key part of our business and we therefore devote significant resources to ensure we are kept up to date with the latest developments in RSL. As part of this strategy all our audit staff receive regular training on the latest developments in RSL.

From our offices in Glasgow and Edinburgh we provide a range of services for housing associations including:-

- External Audit
- Internal Audit
- Financial Services
- Training for Board and Committee Members and Staff
- Financial Projections
- Appraisal of lending packages



Partners: Andrew M. McBean BAcc. C.A., Arnold J.S. Black B.A. C.A., Ewen M. Scott LL.B. C.A., Isobel W. Gray M.A. C.A. F.C.C.A., Alan S. Cunningham B.A. C.A., Mark Mulholland FCCA.

Associates: Philip Morrice, Steven Cunningham B.A.(Hons) C.A., Allison Devine B.Sc. C.A.

Registered to carry out audit work by The Institute of Chartered Accountants of Scotland.

This newsletter is for guidance only, and professional advice should be obtained before acting on any information contained herein. Alexander Sloan, Chartered Accountants can not accept any responsibility for loss occasioned to any person as a result of action taken or refrained from in consequence of the contents of this publication.