

**The Index of Comparative Operating Costs of RSLs  
in Scotland (OCI)**

**Briefing Paper from Communities Scotland**

**January 2008**

# INDEX OF COMPARATIVE OPERATING COSTS OF REGISTERED SOCIAL LANDLORDS IN SCOTLAND - 2007

## Introduction

1. This briefing note discusses our operating cost index (OCI) for Registered Social Landlords (RSLs) in Scotland for the year 2005/06. The report is produced on our behalf by our consultants, Indepen, and is based on RSLs' data that we provide to them.
2. The purpose of the OCI is to provide a means of making meaningful comparisons between RSLs' operating costs. In common with previous years, we have kept the OCI under review and have made some changes which we believe are useful. This is our third annual report. This note and the accompanying report sets out:
  - Conclusions from the review;
  - The background to the OCI;
  - How the techniques behind the OCI work;
  - The cost drivers Indepen have used;
  - The presentation of the material; and
  - How we are using the OCI.

## Conclusions

3. The main results from the review are as follows:
  - Allowing for the effects of inflation, costs of RSLs are increasing at a rate of over 2%;
  - Operating costs of LSVTs are higher than General RSLs;
  - The mix of housing types has a significant effect on RSLs' costs;
  - The physical nature of the stock (type of building, age and size) were found to be statistically significant when measuring costs against other RSLs; and
  - RSLs with high rise properties have higher operating costs than average and those with four in a block properties have lower costs.

## Background

4. We agreed that we would keep our model under review and to consider incorporating additional data that can be shown to improve it. As a result, the 2007 report includes:

- data on the levels of compliance with the Scottish Housing Quality Standard that RSLs have achieved to date;
  - the proportion of each RSL's stock that was transferred from public bodies; and
  - for the first time an 'unbalanced panel' approach, as a consequence of mergers and transfers of engagement within the sector.
5. Statistical data from the Annual Performance and Statistical Returns (APSR) supplied to us by RSLs are used to derive the OCI. Last year we excluded care and support providers from the analysis on the basis that it was not possible to derive a statistically significant relationship within the cost drivers that were consistent with our understanding of how these RSLs operated. We did not revisit this relationship in 2007, but will keep this under consideration as the model continues to develop.

### **The Operating Cost Index**

6. We believe the OCI provides an effective way of comparing operating costs between RSLs. It is the result of an analysis that predicts operating costs for each RSL based on the influence of various cost drivers. It then calculates whether an RSL's actual costs are higher or lower than the model predicts, after having adjusted for the statistically significant factors for which we have sound data and which we know can cause variation in costs between RSLs.
7. We use published data sources available to Communities Scotland for all RSLs – primarily the APSR and RSLs' annual accounts. The OCI only includes cost drivers which are found by Indepen to be statistically significant and have been found to explain much of the operating cost of RSLs. There may be additional factors affecting individual RSLs which may explain why their costs vary from the prediction. While the OCI alone will not necessarily tell us whether one RSL is more effective than another in providing a similar service or output, it will help to narrow down the factors that might explain the variance, and allow a more focussed discussion to take place.
8. The difference between the predicted and the actual cost for each RSL is called the 'residual'. When interpreting the 'residual values' shown in the OCI it is important to be aware that they might be explained, at least in part, by:
- differences in efficiency;
  - stock condition;

- the timing of major repairs;
- accounting treatment;
- differences in the quality of outputs;
- other cost drivers not included in the model; or
- any errors in the cost relationships or the data – although there has been no evidence of systematic error or even of individual cases of wrong data.

### **Costs and cost drivers**

9. As with previous years, we have concluded that total operating costs, excluding housing depreciation, and asset impairment adjustments and net of certain income streams, will be the starting point for the OCI. This year we also investigated the possibility of using an extended definition of net operating costs, which included capitalised maintenance costs. However we concluded that it was not possible to include this as a cost driver at this stage as some RSLs did not provide these figures in 2005/06. As noted above differences in accounting treatment are one of the reasons why predicted and actual costs differ. There is wide variation in accounting treatment across RSLs in respect of capitalised maintenance costs and the subsequent disclosure of these costs in the annual accounts. We plan to review the inclusion of capitalised maintenance costs in the calculation of net operating costs, once the statutory requirement for the separate disclosure of these costs in the annual accounts comes into force.
10. The report identifies which cost drivers are used and which form the basis of the analysis. These include:
  - the type, size and age of the RSL and the number of units owned and managed;
  - the percentage of high rise, tenement and four in a block properties;
  - the proportion of each RSL's stock that was transferred from public bodies; and
  - other housing stock characteristics, such as size and type of properties and age of stock.
11. We continue to see the model as a basis for analysis and focussed discussion about operating costs, not the answer to every question.

### **Presentation of the material**

12. A detailed explanation of the model and the results of the analysis using information for 2005/06, are published in the report "*Index of the*

*comparative operating costs of Registered Social Landlords in Scotland*  
dated December 2007, available on our website at  
[www.communitiesscotland.gov.uk](http://www.communitiesscotland.gov.uk).

### **How we are using the OCI**

13. Our aim is to understand how an RSL can improve its efficiency, effectiveness and the quality of its services and products to tenants. This requires us to consider RSLs' operating costs. We use the OCI as one part of a rounded approach to understanding RSLs' performance and it is now becoming integrated into our regulatory assessment process. In further developing the OCI, we want to improve our understanding, and the understanding of individual RSLs, of the inter-relationships between costs and cost drivers in a fair and useful way.
14. We know that we cannot use the OCI in isolation to form absolute judgements on relative efficiency, as we recognise that social housing is complex and the analysis does not include all the factors that may explain differences in the costs between organisations. Within this context we will focus on RSLs who either appear to have a high cost base relative to others, or those that appear to show little improvement over time.
15. While the OCI will help us talk to RSLs about operating costs in more detail it will also help RSLs in the discussions we hope they will have with each other in their efforts to improve their own performance on operating costs.
16. We believe the OCI is a valuable component of our suite of performance information and we will continue to keep the model under review so that it supports our ongoing regulatory assessment of RSLs.

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