

A REPORT BY THE AUDITOR GENERAL FOR SCOTLAND UNDER SECTION 22(3) OF
THE PUBLIC FINANCE AND ACCOUNTABILITY (SCOTLAND) ACT 2000

THE 2008/09 AUDIT OF REGISTERS OF SCOTLAND

1. I have received the audited accounts of Registers of Scotland (RoS) for the year ended 31 March 2009. The auditor has given a clear audit certificate on the accounts. I have decided to issue this report to bring to the Parliament's attention the effect of the economic downturn on RoS's financial position and its future income and expenditure plans.
2. I submit these accounts and the auditor's report in terms of sub-section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report which I have prepared under sub-section 22(3) of the Act.

Background

3. RoS is an Executive Agency, Trading Fund and a non-Ministerial department of the Scottish Administration. It is responsible for compiling and maintaining 16 public registers relating to property and other legal documents. Its work is demand led, fluctuating in response to activity in the property market, particularly the housing sector. It handles around half a million registration transactions each year and makes information from the registers publicly available.
4. RoS is self-financing and has been operating as a trading fund since 1996. It earns income from customers by charging for registrations and for providing information from the registers. Customers include the general public and professional users, mainly solicitors, working in land and property.
5. Until 2007-08 RoS's income grew steadily and outstripped rising costs, with operating surpluses rising from £16.8 million to £29.2 million a year over the four years to March 2007. In 2007-08 its operating surplus reduced to £10.8 million, reflecting the introduction of reduced registration fee levels. This was part of RoS's strategy to maintain stable prices for customers in the medium to longer term and reduce the level of annual surplus as part of its broader reserves management policy. It was planned that this fee reduction would lead to operating deficits in later years.

RoS financial results 2008-09

6. In 2008-09 RoS incurred an operating deficit of £10.6 million, compared to a budgeted surplus of £4.1 million (Exhibit 1).

Exhibit 1

RoS financial results 2008-09

£ million

Item	2008-09 Outturn	2008-09 Budget	2007-08 Outturn
Turnover	55.6	77.3	72.7
Operating expenses *	66.2	73.2	61.9
Operating (loss) or surplus	(10.6)	4.1	10.8
Net interest received	6.0	-	8.9
Dividend paid on public dividend capital **	-	-	(8.5)
Retained (loss) or surplus for year	(4.6)	-	11.2

Notes:

* Operating expenses in 2008-09 comprised some £41 million staff and related costs, £12 million equipment and services costs and £13 million depreciation, accommodation and miscellaneous costs.

** On 1 April 2008 public dividend capital was repaid in full and no further dividends are due.

Source: RoS

7. The deficit arose because of the significant decline in land registrations, RoS's core business, due to the effect of the slow down in the property market. Total registration transactions completed in the year were 11 per cent below the previous year's total and the number of new transactions in the year fell by 23 per cent compared to the previous year.¹
8. As a trading fund with significant income and reserves, RoS makes no call on the Scottish budget and it met the deficit in 2008-09 from its reserves (the balance on its accumulated income and expenditure reserve was £122.5 million at March 2009). This was in accordance with a policy approved by its Board, which allocated a large element of its reserves to help manage a downturn in revenues due to market fluctuations.
9. Under the Public Finance and Accountability Act 2000, the Keeper of the RoS is required to achieve financial targets set by Scottish Ministers. The operating deficit for 2008-09 resulted in the Keeper not achieving the target of 10 per cent return on capital employed (ROCE) for the three years to March 2009. The actual ROCE for this period was seven per cent.
10. During 2008-09 RoS advised Scottish Ministers of its financial performance and prospects and Ministers reduced the target ROCE for RoS to minus six per cent for the three years to March 2010. This reflected the large deficit RoS forecast in 2009-10 as a result of the downturn.
11. Further information about RoS's business performance in 2008-09 can be found in the Foreword to its accounts and its Annual Report.

RoS's future finances

12. In the light of its experience of the downturn RoS has revised its future financial projections. Its latest corporate plan 2009-2014 projects that its income will gradually recover, though large deficits are still forecast for each year until 2013-14 (Exhibit 2).

Exhibit 2					
RoS financial projections 2009-10 to 2013-14					
	£ million				
	2009-10	2010-11	2011-12	2012-13	2013-14
Turnover	51.9	59.2	50.4	54.1	55.3
Operating costs	74.2	75.4	71.4	68.1	68.2
Operating loss	(22.4)	(16.1)	(21.0)	(13.9)	(13.0)
Three year ROCE	-5.5%	-13.6%	-19.4%	-20.0%	-23.0%

Notes:
 Figures are rounded.
 The increase in RoS's costs in the short term reflects its investment in replacing IT systems and the development of electronic registration services.
 Source: RoS

13. Based on these projections, the total anticipated operating deficit over the five years to 2013-14 is £86 million. A significant part of this deficit was planned prior to the market downturn - RoS had concluded it was desirable to reduce its reserves taking into account its future capital investment needs, the need to maintain stable prices, fund contingencies and meet any unforeseen events. The anticipated deficits will significantly reduce RoS's accumulated income and expenditure reserve of £122.5 million at March 2009. The anticipated deficits are some £25 million higher than

¹ Each registration transaction may take several weeks to complete, so the total number of transactions completed in any year may vary from the total number received.

RoS had projected in previous plans, before the full impact of the downturn had been experienced.

Financial management

14. The current downturn has been more severe than RoS had previously expected. However, the auditor has reported that RoS has assessed future trends and adjusted its plans in the light of recent results. RoS considers that its future income and expenditure plans are supportable.
15. RoS's latest corporate plan describes the financial modelling it has completed to test the sensitivity of its plan and help manage risks. The plan indicates that should the position change because the recession has a deeper impact on its work than currently anticipated then RoS will act to address the new position. This will include continuing to keep the fees it charges for registration and information services under regular review.
16. The auditor has monitored RoS's overall financial planning and its reserves policy and considers RoS's management of these areas to be effective. In its 2008-09 audit report, the auditor stated that:

"We note that current market conditions are unprecedented and future projections are subject to a high degree of uncertainty. In these circumstances all that management can sensibly do is scenario plan and continue to react on a timely basis to market movements. We are satisfied that RoS's existing corporate planning arrangements are sufficiently robust and flexible to respond effectively to current market conditions."

Conclusions

17. RoS incurred a large operating deficit in 2008-09 and it plans further deficits in future. The deficits are larger than previously forecast as a result of the economic downturn. However, RoS intends to use its accumulated reserves to meet the planned deficits and to continue to develop and improve its services in line with its corporate plan.
18. RoS will need to continue to manage its income and expenditure plans in the light of future market movements to ensure that its plans remain realistic and supportable. I will continue to monitor RoS's performance in the years ahead and, if conditions merit it, I may consider a further report to Parliament in due course.



ROBERT W BLACK
Auditor General for Scotland

29 September 2009