

**Scottish Housing
Regulator**



Helping to protect tenants and people who use the services of social landlords

Our annual report and accounts 2013/14

The Accountable Officer authorised these financial statements for issue on 20 August 2014.

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About us

We are the independent regulator of social landlords in Scotland, accountable directly to the Scottish Parliament. Our statutory objective is to safeguard and promote the interests of current and future tenants, homeless people and others who use the services provided by social landlords. We regulate 182 registered social landlords (RSLs) and the housing activities of Scotland's 32 local authorities. We keep a publicly available register of RSLs.

Our Board of non-executive members, appointed by Scottish Ministers, sets our strategic direction and ensures we focus on key priorities that are critical both to social landlords and to us, as a regulator.

Our Board:

- » **Kay Blair** Chair from April 2011 to March 2015
- » **Mike Dailly** from March 2013 to February 2017
- » **Anne Jarvie** from March 2013 to February 2016
- » **Simon Little** from April 2011 to March 2015
- » **Wesley Mitchell** from April 2013 to March 2015
- » **Sid Patten** from April 2011 to March 2018 (2nd Term)
- » **Lisa Peebles** from April 2011 to March 2015
- » **Russell Pettigrew** from March 2013 to February 2017

We are committed to meeting our equalities duties as a public body and performing our functions in a way which encourages **equal opportunities**. In April 2013 we published an equality statement, highlighting our commitment to equality and restating our equality expectations of social landlords. During the year we developed and began implementing an action plan to help us deliver our equality statement.

As an effective regulator we contribute to the Scottish Government's objectives of Scotland becoming **wealthier and fairer; smarter; healthier; safer and stronger; and greener**.



HAPPY TO TRANSLATE

Our work helps the Scottish Government to deliver its National Outcomes:

- » We have tackled the significant inequalities in Scottish society.
- » We live in well designed, sustainable places where we are able to access the amenities and services we need.
- » We live longer, healthier lives.
- » We have improved the life chances for children, young people and families at risk.
- » We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others.

Our priorities

- » Good service delivery & performance for tenants and others
- » Good governance
- » Financial health

We want successful social landlords delivering consistently good outcomes for tenants, homeless people and others. We recognise that social landlords have an important role in the community.

Our regulatory focus means:

- » Landlords achieving the outcomes and standards of the Social Housing Charter
- » Well-governed RSLs in good financial health
- » Lenders and public funders confident to invest in social housing

We aim to be transparent, responsive and efficient. We strive to focus our resources where they are most needed and where they will deliver good outcomes for tenants and others.

**We safeguard and promote
the interests of:**

around
590,000

tenants and their families who live in homes
owned and managed by social landlords;

around
39,000

people who seek help from local authorities
each year as a result of homelessness or
potential homelessness;

around
93,000

owners who receive services from social
landlords; and

over **500**

Gypsy/Traveller families who live on sites
provided by social landlords.

These are diverse groups with different
needs and priorities.

What's inside?

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Welcome

2013/14 was a good, if challenging, year for us.

Our effective regulation helped protect the interests of tenants, homeless people and others who use the services provided by social landlords. We achieved our objectives by continuing to focus on our priorities: good governance, financial health, and good service delivery and performance for tenants and others.

This clear focus led us over the year to call on landlords to build on good practice; to stress the importance of rigorous decision-making; to identify and manage risk; and to highlight the need for candour and realism in dealing with pension liabilities. We supported the Board members of RSLs through our Governance Matters events and helped landlords prepare for the first Charter returns. The Charter will usher in a new era in terms of transparency and will give tenants and others information which will help them compare and contrast their landlord's performance. Our publications and research, including regular studies on the early impact of Welfare Reform, have helped develop landlords', policy makers' and lenders' understanding of both our regulatory approach and wider social housing issues.

Following our annual regulatory assessments, we engaged actively with 61 RSLs and 15 councils. Our engagement with RSLs was based on the risks from their complexity and size, or particular issues where we required to see improvement. We are pleased that no landlord suffered insurmountable difficulties and that, as a result, tenants' interests were safeguarded and promoted.

We are a proactive and independent regulator, and one that listens. The views of our stakeholders matter to us. Our Tenant Panel, our work with tenant representative bodies and our tenant assessors have given us an invaluable insight into the priorities and views of tenants and other service users. Our stakeholder research has provided us with much assurance on how we communicate and also how we can be more effective in getting our messages across. We will build on this work to influence how we regulate and how we engage with our stakeholders.



While any new IT system is not without its challenges, we believe the new online system for landlords to submit information to us is a significant achievement. Landlords are now using the new online portal and we plan to expand this facility in the future.

We thank our Board members, staff, and tenant assessors for their continued dedication, hard work and resilience.

We expect the coming year to be challenging for tenants, service users and landlords. It will also be challenging for us as we operate in an increasingly difficult environment. We will remain focused on proactive, preventative, assurance-based regulation to safeguard and promote the interests of tenants and others who use the services of social landlords. We look forward to reinforcing our relationships with key stakeholders as we help to build an even stronger social housing sector in Scotland.

A handwritten signature in black ink, reading "A. Kay Blair".

Kay Blair
Chair

A handwritten signature in black ink, reading "Michael Cameron".

Michael Cameron
Chief Executive

Our impact & outcomes

We helped to:

protect
590,000 tenants

protect
£7bn of public money

prevent RSL business failures

protect
£12bn of housing assets

raise awareness of
good governance

maintain **Lender confidence**

Some outcomes

- » Effective, proactive and targeted regulation based on our risk assessment of 162 RSLs and 32 councils
- » Our national thematic report on Housing Options achieved stakeholder commitment to improvement
- » Landlords achieved 82% compliance with the Scottish Housing Quality Standard
- » Landlords are ready to submit their first Charter return through our new and easy-to-use online landlord portal
- » A strong focus on service quality through 14 performance inquiries
- » £4.2 billion in loan facilities to RSLs
- » Governance strengthened in 6 landlords as a result of direct engagement
- » We know more about the views of tenants, service users and stakeholders
- » 90,000 visits to our website and nearly 400 followers on Twitter
- » SHR newsletter issued quarterly to over 1000 subscribers and 53 news stories published

In the following sections we set out the work we have done during 2013/14 on each of our priorities.

1. Landlords achieve the outcomes and standards in the Social Housing Charter

We monitor, assess, and report on how landlords are performing against the Scottish Government's Social Housing Charter outcomes and standards. If necessary we intervene to secure improvement.

What we did to achieve this - highlights from the year

A major report on Housing Options and homelessness prevention

We carried out a national thematic inquiry into housing options and homelessness prevention. We looked at how local authorities have developed and delivered the housing options approach for people who seek their help. We published our findings in May 2014 with key recommendations for government and local authorities. Stakeholders welcomed the report and all are now focused on using the report to improve the service for people who need help.

"This important report provides a first real insight into how Housing Options is working for homeless people and those threatened with homelessness across Scotland. We welcome the recommendations for enhanced guidance to local authorities and greater clarity on the effective delivery of Housing Options" Shelter Scotland

Performance Matters

We published the first report in our new Performance Matters series focusing on landlords' service performance, with the aim to support improvement by sharing positive practice.

Supporting landlords on the Annual Charter Return

We launched the new online landlord portal, which we co-produced with volunteer landlords. This is a single, secure system for landlords to submit data to us, including their first Annual Return on the Charter (ARC). We helped landlords prepare with comprehensive guidance and regular updates on our website, a short online help video, and helpline support. By 31 March landlords were successfully using the portal.

"The early release of the technical guidance, together with the accessibility of key people within the SHR to help with queries, allowed River Clyde Homes to adequately prepare for the ARC and submit it on time. In addition we found the online portal easy to use, and the validation function particularly helpful"

Kevin Scarlett, Chief Executive, River Clyde Homes

Improving the quality and safety of tenants' homes

We reported on landlords' steady progress towards the 2015 Scottish Housing Quality Standard target. During 2012/13, they invested over £439m to bring houses up to the Standard, and plan to spend £852m in 2014 and 2015. We also published technical guidance on the Scottish Government's Energy Efficiency Standard for Social Housing.

Working with the Health & Safety Executive, we identified a risk to tenants' and residents' safety around the integrity of gas flues during maintenance and improvement works. We issued a regulatory advice note to all landlords and encouraged them to review their procedures to ensure all tenants and residents are kept safe.

Working together for the interests of local authority tenants and service users

Working through 32 local area networks with our scrutiny partners, we assessed the risk in each local authority. From this we scrutinised 15 councils on a variety of issues including homelessness, asset management, income maximisation and the Scottish Housing Quality Standard (SHQS). We did a mixture of on-site visits and monitoring of data and progress of improvement plans.

We reviewed our approach to our local authority risk assessment to align it with the introduction of the Annual Return on the Charter, and we reviewed our scrutiny responses to ensure they were proportionate to risk and good use of resources. We carried out a joint on-site inquiry with Audit Scotland.

"Our respective staff teams worked well together in order to deliver an immediate and effective scrutiny response to a potentially significant emerging risk"

Audit Scotland

Working with tenants and other service users

Our National Panel of Tenants and Service Users now has around 400 members across Scotland. The Panel gives us ways to engage with a wide range of people through surveys, focus groups, telephone interviews and interactive web discussions. The Panel gives us valuable insight into their priorities and feedback on our work and how we communicate. We use this information to shape our regulatory activities.

Our tenant assessors helped us to develop the Charter landlord report, took part in mystery shopping for our national thematic inquiry on housing options and co-produced our refreshed factsheet for tenants on Significant Performance Failures.

"At a time of great change in social housing, it's reassuring to know that we have a Regulator that continues to look after the interests of tenants and other service users. It has been great to continue being involved in the work of the Regulator, particularly in developing the approach to the Charter"

Bill Chapman, Tenant Assessor

We also published *How we regulate: A guide for tenants and service users* and we circulated this to all tenant groups in Scotland.

We agreed effective liaison arrangements with the Registered Tenant Organisations' (RTOs) Chairs and Secretaries Groups and established a new group to help us engage directly and regularly with the RTO Regional Networks.



2. RSLs are well governed and in good financial health

Good governance and financial health underpin RSLs' ability to deliver good services, drive improvements and deal with challenging times.

Most RSLs are well governed and financially healthy. This, together with our work with individual landlords in difficulties, helped to ensure that there were no RSL business failures during 2013/14. This means current and future tenants' interests are protected, as are £12bn of housing assets owned by RSLs.

What we did to achieve this - highlights from the year

Assessing risk to tenants' interests

We published regulation plans for 61 RSLs in April 2013 for our engagement with those landlords based on a comprehensive assessment of risk. We worked with the landlords throughout the year to get appropriate assurance and, where necessary, to achieve improvement.

We risk assessed all 162 RSLs during the autumn and winter, taking account of the increasing challenges and risks for landlords. From this we published regulation plans for 67 RSLs in March 2014, 15 of which are of 'systemic importance'. This means they present the greatest risk to tenants' and service users' interests should their business fail in some way.

Building capacity and supporting good governance

We ran nine free Governance Matters events for RSL governing body members, building on the success of our 2013 events. These focused on the latest thinking on governance practice and networking for delegates to share good practice. Delegates particularly welcomed the opportunity to discuss risk management issues – a topic which they had requested previously. Over 180 governing body members from 113 RSLs attended in locations throughout Scotland; nine out of ten delegates rated the value of the events highly.

"All that we discussed gave me a wider view on governance and risks, and taught me to look deeper into situations."

Governance Matters Event Delegate

We published three editions of our Governance Matters reports, for RSLs' governing body members, with lessons from real case studies of RSLs with serious governance difficulties. One was a good practice study of an RSL that dealt effectively with a serious internal control failure that led to financial losses. We supported the RSL from an early stage as it worked openly and co-operatively with us.

We engaged with eight landlords facing governance problems. We helped the landlords identify co-optees to strengthen their governance skills and we helped some with serious difficulties to appoint special managers. The skills and objective perspective of the special managers and co-optees RSLs appointed gave the governing bodies expert advice to help them address the problems. We thank all those who volunteered to act as co-optees and recognise their personal commitment to supporting RSLs in difficulties.

We continue to learn from each of our regulatory engagement cases. We held a workshop with a group of co-optees and special managers to learn from their experiences; this helped shape our subsequent engagements with landlords.

We also:

- » worked effectively with RSLs who reported 206 notifiable events to us;
- » gave consent to RSLs for 132 constitutional and organisational changes and disposals, mainly related to granting standard security to their lenders; and
- » commissioned research into group structures, to inform a possible review of regulatory guidance.

Helping to maintain the financial health of RSLs

We reported that most RSLs remain financially sound and are coping with current economic challenges, but also that there are some signs of increased financial stress.

Last year:

- » the aggregate balance of loans outstanding to RSLs exceeded £3 billion for the first time;
- » total facilities increased to a record £4.24 billion, but this was the slowest rate of growth since 2004;
- » the undrawn facility declined for the fifth successive year to £721 million, probably because of the end of SHQS investment programmes, changes in the lending market and reluctance of some RSLs to increase their indebtedness in view of emerging risks; and
- » we saw that RSLs continue to have access to funding for projects which demonstrate an appropriate rate of return.

We are engaging with an increasing number of RSLs in response to the scale of the challenge facing RSLs, particularly around rent affordability, welfare reform and the historic under-funding of pensions.

We continued to meet with our auditors' forum. The audit of the accounts of RSLs is a key control measure for governing bodies. We received no qualified accounts for RSLs for the year ending 31 March 2013.

Impact of Welfare Reform

We published three phases of research on the early impact of Welfare Reform on social landlords' rent arrears. We found a complex picture, because of the effect of seasonal fluctuations and the likely impact of Discretionary Housing Payments. We used this research as evidence to help the Scottish Parliament's Welfare Reform Committee and Westminster's Scottish Affairs Committee better understand the impact on landlords.

3. Lenders and public funders have confidence to continue to invest in social housing

RSLs are supported by large sums of public money and private lending; government grants account for £7.1bn of housing assets on the RSLs' balance sheets with private lending accounting for £3.3bn.

One of the sector's most important assets is its credit rating; our work helps to maintain that credit rating.

"Effective regulation is an important source of assurance to investors in social housing. We value the constructive working relationship that we have with the Scottish Housing Regulator"

Piers Williamson, Chief Executive,
The Housing Finance Corporation

What we did to achieve this - highlights from the year

Supporting confidence to invest

We work with new potential funders and the Scottish Government to explain our regulatory role, and so encourage appropriate investment in social housing. In January 2014 we hosted an event in London for prospective investors in Scottish social housing. We helped them understand the assurance they could take from our regulatory approach when making investment decisions. Following our January presentation, one Scottish RSL secured the first Scottish private placement of a £45m investment.

“The Regulator was very helpful and supportive in assuring investors that Scotland has a robust and effective regulatory system. This made our job in promoting Link much easier and the private placement became a relatively straightforward transaction thereafter. We had kept the Regulator apprised of our plans and progress and this too made for a smooth consent approval”

Neil Hall, Director of Finance & Corporate Services,
Link Group Ltd

We supported RSLs, lenders, rating agencies and those who guarantee bonds as they scoped the potential for bond investment in Scottish social housing.

“The presentation by the Scottish Housing Regulator in London was extremely important in explaining to potential investors the role of the regulator and how it helps to protect tenants, RSLs and lenders”

Sonia Gadhia, Vice President,
Private Placement Markets RBS

Understanding the priorities of existing lenders and funders

We met regularly with the Council of Mortgage Lenders and the main existing lenders to RSLs to better understand their views, the cost of new debt and the types available. This helped us keep lenders and funders up to date on our work and maintain their confidence in our regulation of social landlords.



4. A transparent, responsive best value organisation

We aim to be transparent, visible and responsive. We want to deliver best value and align our resources to our priorities.

What we did to achieve this – highlights from the year

Improving our systems

We reached the first major milestone in the project to modernise our regulatory IT systems with the successful launch of the online landlord portal – the single, secure way for landlords to submit data to us, including their first Annual Return on the Charter. We used the Scottish Government's Programme and Project Management Centre of Expertise to carry out Gateway Reviews that provided positive assurance around our management of the project.

Making best use of our resources

Over the three years to March 2014 we have successfully taken on additional responsibilities and established the new organisation. We absorbed rises in our staff costs and the additional costs to operate as a Non-Ministerial Department, while managing a reduction in our funding of 19% in cash terms. We achieved this by focusing on clear priorities, implementing a leaner structure, streamlining our processes and investing in our staff learning and development. Our staff numbers have reduced from 79 in 2010 to 52 at March 2014.

We continuously looked for improvements and implemented actions from our best value reviews on vision and leadership and governance and accountability.

We carried out a range of activities to help us deliver our environmental strategy. These included an awareness-raising programme for staff, establishing baseline data on business travel and promoting electronic communication.

Listening to our stakeholders

We commissioned independent research on how we communicate and engage. We invited all Registered Tenant Organisations, Regional Networks, RSLs, local authorities and key strategic stakeholder groups to take part. Around 270 organisations participated. We will publish findings in 2014/15.

Keeping in touch

We published four editions of our stakeholder e-newsletter and circulated this to more than 1000 people. We issued 30 press releases and 53 news stories about our work. Nearly 400 people follow us on Twitter. We made our website more tablet and smartphone friendly and it was visited around 90,000 times.

Being responsive

We continue to achieve our published responsiveness targets.

We:

- » responded to 98% of correspondence within our target of 8 days
- » dealt with all 132 consent applications within our target of 8 days
- » responded to all 16 Freedom of Information requests to us within 20 days
- » paid all 429 of our supplier and contractor invoices within 10 days

Emerging issues and our priorities for 2014/15

Our priorities – good governance, financial health and good service delivery and performance for tenants and other service users – remain relevant.

We know that some risks to the interests of tenants and others are becoming more acute. The most significant will be the emerging impact of welfare reform, cost of landlords' pension liabilities and affordability for tenants.

We:

- » think it important that social landlords keep rents affordable for tenants, and we are asking those with business plans based on above inflation rent rises to consider whether this is sustainable given the financial challenges tenants face;
- » will analyse and report on the first Charter returns from all landlords;
- » will undertake focused thematic reviews on key aspects of social housing;
- » will begin to monitor the Scottish Government's new Energy Efficiency Standard for Social Housing;
- » will continue to implement our new IT system to improve how we handle information we receive about landlords;
- » will continue to evaluate and refine our regulatory approach in line with the operating environment and our risk appetite;
- » will engage with key stakeholders to ensure our intelligence and understanding are good; and
- » will continue to engage with lenders and investors to help maintain confidence in social landlords.

We need to ensure the scope of our activities in 2014/15 reflects our £3.7m budget and takes account of increased costs. We will continue to be risk based and proportionate, preventing risk from impacting on tenants. The coming year will present new challenges but we will work with all involved with social housing to ensure good regulation that safeguards and promotes the interests of tenants, homeless people and others who use the services of social landlords.



The Scottish Housing Regulator Annual Accounts

For The Year Ended
31 March 2014

Management Commentary

These accounts for the financial year 2013/14 have been prepared in accordance with the Accounts Direction given by Scottish Ministers, in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000.

Strategic Report

Statutory Background

The Scottish Housing Regulator (SHR) was established on 1 April 2011 under the Housing (Scotland) Act 2010. We are a Non-Ministerial Department (NMD), part of the Scottish Administration and directly accountable to the Scottish Parliament. We commenced our full regulatory powers, duties and corporate responsibilities under the 2010 Act in April 2012.

We are the successor organisation to the previous Scottish Housing Regulator agency, which exercised Scottish Ministers' powers under the Housing (Scotland) Act 2001 until the end of March 2012.

Our relationship with Scottish Ministers is set out in a published Framework Agreement, available on our website.

Principal Activities

Our *Corporate Plan 2012-15* sets out how we will deliver our statutory objective and our regulatory priorities. We have one statutory objective, to:

"safeguard and promote the interests of current and future tenants of social landlords, people who are or may become homeless, and people who use housing services provided by registered social landlords (RSLs) and local authorities".

We do this by assessing and reporting on:

- » how social landlords are performing their housing services;
- » RSLs' financial well-being; and
- » RSLs' standards of governance.

We intervene to secure improvements where we need to. We also keep a Register of all the RSLs in Scotland, which holds important information about each landlord.

During 2013/14, following our annual regulatory assessments, we engaged actively with 61 RSLs and 15 local authorities. We also regulated the homelessness functions of the 32 Scottish local authorities.

Review of Business in 2013/14: Impacts, Outcomes, Emerging Issues and our Future Priorities

Our Operating Plan for 2013/14 is derived from our Corporate Plan 2012-15. Our impact and outcomes and performance against our priorities are set out in our Annual Report 2013/14.

Risks to the Delivery of our Principal Activities

Our approach to managing risk is described in detail in our Governance Statement on pages 13-18 of this report. The following principal risks have been identified in our risk register as potentially having the greatest impact on our future activities:

- » challenges to our resource deployment arising from changes which may affect a large number of social landlords (such as welfare reform and the impact of pension costs on RSLs);
- » the financial impact of these changes on Registered Social Landlords and our response; and
- » our current business support applications not fully meeting our business needs.

For these risks, and the others identified within our risk register, we have developed an action plan which sets out the controls we have in place to manage the risk and any further actions we are taking.

Financial Outturn

Of our total revenue budget of £3.846m (2012/13 - £4.000m), we spent £3.705m (2012/13 - £3.693m) resulting in savings of £0.141m (2012/13 - £0.307m).

Staff Costs

During 2013/14 we applied an average vacancy rate of 2% to our original staff cost budget to reflect the likelihood of staff turnover and the time required to fill subsequent vacancies. This enabled us to redirect our resources to other priorities and pressures. After the application of the vacancy rate, we spent £2.712m of our adjusted staff cost budget of £2.694m resulting in a marginal overspend of £0.018m following an accrual for unused staff leave at 31 March 2014.

Our overall staff costs in 2013/14 of £2.712m decreased by £0.190m from £2.902m reported in 2012/13. This is largely due to us making less use of temporary staff and secondments in 2013/14 following a significant restructure in 2012/13.

Non Staff Costs

We have reported outturn savings of £0.159m against our non-staff cost budget across a number of individual budget lines.

During 2013/14 we provided budgetary cover of up to £0.030m as contingency to enable us to respond to a small number of potential proposals from RSLs which would have required our regulatory consent. As the specific initiatives to which these budgets relate did not proceed in the year we did not incur this cost.

Our IT budget in 2013/14 provided, for the first time, for the costs of application support on a cover/contingency basis for our legacy regulatory systems and additional licenses. The final costs of both of these services were less than originally advised and contributed to a combined saving of £0.030m.

Our Board costs increased by £0.031m in 2013/14 from previous year. This increase arises from the full year effect of the increase in our Board membership to eight members in 2013/14 (from seven in 2012/13).

Our overall expenditure on IT costs increased from 2012/13 by £0.088m largely due to the costs in 2014/15 of developing our website and intranet, the impact of additional costs incurred by SHR that were previously met centrally.

Other minor savings were generated in our 2013/14 budgets for Training and Development, Stakeholder Engagement and Research and Consultancy.

We fully utilised our capital budget which enabled the first phases of the Business Intelligence System to go live on 31 March 2014 as planned.

Like all public bodies, we continue to manage our activities against future resource pressures. In 2014/15 our overall revenue budget will decrease by a further £0.100m in cash terms and we will need to ensure that the scope of our activities reflects these funding pressures and the challenges that this will present.

Gender Balance

At the end of the 2013/14 financial year, the number of persons of each sex who were Board Members, Senior Managers and employees was as follows:

	Female	Male
Board Members	3	5
Executive Team (Including Chief Executive)	1	3
Employees	33	15

Directors' Report

The Board of the Scottish Housing Regulator

Our organisation is led by a Board of eight non-executive members, appointed by Scottish Ministers following an open public appointments process. The Board sets our strategic direction and is responsible for oversight of our aims, objectives and financial performance.

Details of Board Membership and the framework in place for Board appointments, appraisal and review of the Board's effectiveness are described in our Governance Statement on pages 25 – 28 of this report.

The Board met eight times in 2013/14 to fulfil its role. Minutes of the meetings, our Board Code of Conduct and Board members' registers of interest are publicly available on our website. Additional workshops and strategy days were held to consider a wide range of topics, including regulatory policy development and our approach to risk management and other corporate governance matters.

Audit & Risk Assurance Committee

Our Audit & Risk Assurance Committee provides assurance to our Board and Chief Executive, as Accountable Officer, that appropriate risk, control and governance structures are in place. The Audit & Risk Assurance Committee met five times in 2013/14 and all meetings were quorate. Membership of the Committee and its specific responsibilities are described in the Governance Statement on pages 25 - 28 of this report.

The Executive Team

The Executive Team comprises the senior managers of the organisation who have responsibility for the operational delivery of our work, consistent with the Board's strategic direction. Throughout 2013/14 our Executive Team received regular reports to monitor progress against the objectives in our Corporate Plan 2012-15 and annual operating plan, and to ensure the effective management of risk.

The Executive Team Membership in the year was:

- » Michael Cameron, Chief Executive
- » Christine Macleod, Director of Regulation - Governance and Performance
- » Ian Brennan, Director of Regulation – Finance and Risk
- » Iain Muirhead, Director of Strategy and Communications.

Each member of the Executive Team has confirmed that so far as they are aware, there is no relevant audit information of which the auditor is unaware.

Details of Executive Team Remuneration can be found in the Remuneration Report on pages 19-23.

Employment Policies

Employee involvement

We ensure that our staff are kept informed about the organisation, its people and business through a range of activities. These include staff briefing sessions, regular face-to-face team meetings with managers, and attending a range of internal and external events. During the last year staff were invited to take part in a range of different project and working groups.

The SHR is party to the Scottish Government's Partnership Agreement with trade unions recognised by the Scottish Government. Each year staff take part in the UK-wide civil service Employee Engagement Survey.

Each of our divisions focuses on contributing to the delivery of our corporate strategic objectives. To support this, our performance management system ensures that all staff agree annual objectives with their line manager which are closely linked to our Corporate Plan 2012-15 and annual operating plans.

During 2013-14 we implemented our staff Learning and Development Strategy. This strategy demonstrates our commitment to investing in our staff, using our resources as effectively as possible to achieve our objectives and maximising value for money.

Employee recruitment

We carry out our recruitment and promotion activities on the basis of fair and open competition, selection on merit and in accordance with Scottish Government guidance.

Employment of disabled people

We adhere to Scottish Government recruitment policies which ensure that all disabled applicants who meet the minimum advertised criteria for a job vacancy will be invited to interview. Disabled candidates are guaranteed the chance to be judged along with everyone else on their abilities.

Equal opportunities and diversity

We treat all staff equally irrespective of their sex, marital status, age, race, ethnic origin, sexual orientation, gender identity, disability, religion or belief, working pattern, employment status, caring responsibility or trade union membership. We are committed to increasing the diversity of staff within the organisation to reflect the people of Scotland, and to valuing positively the different perspectives and skills of all staff and making full use of these in our work.

Sickness absence data

The average total number of sick days per full time employee in 2013/14 was 3.7 days (8.9 days - 2012/13).

Other Disclosures

Health, safety and the environment

We aim to provide a safe and healthy working environment for all staff. So far as is reasonably practicable, we aim to have systems and procedures in place which will ensure that all equipment, plant and premises are safe and free from adverse effects to health. Our health and safety procedures are in accordance with the Scottish Government's Health and Safety Management Systems and procedures. We have trained Health and Safety Liaison Officers to provide support services and advice to staff. They liaise with the Health and Safety Liaison Officer from the House Team of Highlander House.

We are committed to reducing our impact on the environment through the effective management of our operations. We recognise our legal and ethical responsibilities to protect and enhance the environment and work towards sustainable practices in the use and disposal of materials, energy, and transport management.

Social and community issues

During 2013/14 we implemented our Consultation & Involvement Strategy. The aim of the strategy is to ensure that we actively involve tenants, homeless people and others who use social landlords' housing services in our work. As part of this strategy, we established a National Panel of Tenants and Service Users. The Panel provided feedback directly from those who use social landlords' services. We also continued to use tenant assessors as part of our commitment to involve service users in our scrutiny work.

We also follow the guidelines set by the Scottish Government's Volunteering Policy, in which staff can participate in community projects with our support.

Reporting of personal data related incidents

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of the other UK information legislation.

No protected personal data related incidents have needed to be formally reported to the Information Commissioner's Office in 2013/14.

Appointment of auditors

Audit Scotland audited our accounts. A detail of the Audit Scotland notional fee of £20,830 is shown at Note 11. Audit Scotland supplied no other services during the year. The Scottish Government internal audit department provided internal audit services.

Disclosure of relevant audit information

As Accountable Officer, I am not aware of any relevant audit information of which our auditors are unaware. I have taken all necessary steps to ensure that I am aware of any relevant audit information and to establish that the auditors are also aware of this information.

Significant changes in non-current assets

The movements in non-current assets are set out in notes 4 and 5 to the financial statements. The capital costs associated with our Business Intelligence System, added as a non-current asset on 31 March 2014, significantly add to our non-current asset base. There is no significant difference between the value of these non-current assets shown in the financial statements and their current market value.

Post-balance sheet events

There have been no material events occurring after the year end which have a bearing on these accounts.

Pensions

Pension benefits are provided through the Civil Service pension arrangements. More details on the Principal Civil Service Pension Scheme (PCSPS) and the treatment of liabilities in our financial statements can be found in notes 1.9 and 13 to the accounts.

Details of the pension entitlements of our Executive Team members are provided in the Remuneration Report.

Supplier payment policy

We have not paid any interest under the Late Payment of Commercial Debts (Interest) Act 1988.

Our policy is to pay all invoices not in dispute within 10 days from receipt of the invoice. We aim to pay 100% of invoices on time in these terms. This includes disputed invoices once the dispute has been settled. We process invoices on the Scottish Government's Accounting System (SEAS). We are reliant upon the financial information and management system provided by the Scottish Government for all our financial functions. For the year ended 31 March 2014, we paid 100% of all invoices received within the terms of our payment policy.

Charitable donations

There were no charitable donations made during the year.

These accounts were authorised for issue on the same date as the Independent Auditor's report.



Michael Cameron

Chief Executive
26 August 2014

Remuneration Report

Part One: Unaudited Information Employment Policies

Salary

The remuneration of senior civil servants is set in accordance with the Civil Service Management Code (available at www.civilservice.gov.uk) and with independent advice from the Senior Salaries Review Body (SSRB).

In reaching its recommendations, the SSRB is to have regard to the following considerations:

- » the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- » regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- » Government policies for improving the public services including the requirement on portfolios to meet the output targets for the delivery of portfolio services; and
- » the funds available to portfolios as set out in the Scottish Government's portfolio expenditure limits.

Further information about the work of the SSRB can be found at www.ome.uk.com.

Within the Scottish Government, the Top Level Pay Committee, comprising the Permanent Secretary, the Director-Generals and the Non-executive members of the Strategic Board, ensures that the Pay and Performance Management System (PPMS) policy falls within the parameters set by the SSRB and Cabinet Office. The SCS Pay Strategy 2008 determined that the base pay award for all members of the Senior Civil Service whose performance is satisfactory would be 2%; non-consolidated performance related pay awards (ranging from £7,500 to £12,000) were also available for satisfactory performers within a pool scheme based on a ranking of performance in achieving agreed business objectives and contributing to corporate priorities. The Pay strategy is administered by a system of Pay Committees who determine salary and non-consolidated performance related pay recommendations based on assessments of performance.

Service Contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at:
www.civilservicecommission.org.uk

Remuneration (including salary and Pension Entitlements)

Part Two: Audited Information

Remuneration

Single total figure of remuneration:

	Salary (£,000)		Bonus Payments (£,000)		Benefits in kind (to nearest £100)		Pension benefits (£,000) ¹		Total (£,000)	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
Officials										
Chief Executive										
Michael Cameron	70-75	70-75					0-5	10-15	70-75	80-85
Executive Team										
Ian Brennan	65-70	65-70					25-30	25-30	90-95	90-95
Christine Macleod	65-70	60-65					5-10	0-5	70-75	65-70
Iain Muirhead	60-65	60-65					10-15	15-20	75-80	80-85
Board Members Fees (NMD)										
Kay Blair (Chair)	20-25	20-25							20-25	20-25
Sid Patten	5-10	5-10							5-10	5-10
Simon Little	5-10	5-10							5-10	5-10
Lisa Peebles	5-10	5-10							5-10	5-10
Russell Pettigrew ²	5-10	0-5							5-10	0-5
Anne Jarvie ²	5-10	0-5							5-10	0-5
Mike Dailly ²	5-10	0-5							5-10	0-5
Wesley Mitchell ³	5-10								5-10	

¹ The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

² Appointed from 1 March 2013

³ Appointed from 1 April 2013

Salary

'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by SHR and thus recorded in these accounts.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by SHR and treated by HM Revenue and Customs as a taxable emolument.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2013-14 relate to performance in 2013-14 and the comparative bonuses reported for 2012-13 relate to the performance in 2012-13.

Pay multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid director in SHR in the financial year 2013-14 was £70,00-75,000 (2012-13, £70,000-75,000). This was 1.8 times (2012-13, 1.8) the median remuneration of the workforce, which was £40,575 (2012-13, £40,173).

In 2013-14, 0 (2012-13, 0) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £19,000 to £73,000 (2012-13, £18,000-£73,000).

Total remuneration includes salary, non-consolidated performance related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

The Cash Equivalent Transfer Value (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

The real increase in the value of the CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.



	Accrued Pension (P) at pension age and Lump Sum (LS) At 31/03/2014 £000 Band	Real Pension Increase (P) and Lump Sum (LS) at pension age £000 Band	CETV at 01/04/2014 £000	CETV At 31/03/2013 £000	Real Increase in CETV £000
Ian Brennan Director of Regulation: Finance and Risk	5 – 10 (P) 0 (LS)	0 – 2.5 (P) 0 (LS)	109	84	16
Michael Cameron Chief Executive	20 – 25 (P) 70 – 75 (LS)	0 – 2.5 (P) 0 – 2.5 (LS)	399	374	0
Christine Macleod Director of Regulation: Governance and Performance	20 – 25 (P) 70 – 75 (LS)	0 – 2.5 (P) 0 – 2.5 (LS)	471	435	8
Iain Muirhead Director of Strategy and Communication	10 – 15 (P) 40 – 45 (LS)	0 – 2.5 (P) 0 – 2.5 (LS)	199	179	6

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (**classic**, **premium** or **classic plus**); or a whole career scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 1.5% and 6.25% of pensionable earnings for **classic** and 3.5% and 8.25% for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2014. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website
<http://www.civilservice.gov.uk/pensions>



Michael Cameron

Chief Executive

26 August 2014

Statement of Accountable Officer's Responsibilities

In accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000, Scottish Ministers have directed the Scottish Housing Regulator (SHR) to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction at the end of these financial statements.

The accounts are prepared on an accruals basis and must give a true and fair view of SHR's state of affairs at the year end and of its operating costs, recognised gains and losses, and cash flows for the financial year.

The Permanent Secretary of the Scottish Administration has appointed the Chief Executive as the Accountable Officer for SHR.

In preparing the accounts, the Accountable Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- » observe the Accounts Direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- » make judgements and estimates on a reasonable basis;
- » state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the financial statements; and
- » prepare the accounts on a going-concern basis.

The responsibilities of the Accountable Officer, including responsibility for the propriety and regularity of the public finances for which he is answerable, for keeping proper records and for safeguarding SHR's assets, are set out in the Accountable Officer's Memorandum issued by Scottish Ministers.

Governance Statement

Scope of responsibility

As Accountable Officer for the SHR, I am responsible for maintaining a sound governance framework and system of internal control that supports the achievement of SHR's policies, aims and objectives, while safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

The SHR is a Non-Ministerial Department (NMD) and part of the Scottish Administration, with direct accountability to the Scottish Parliament. Whilst our accounts are not consolidated with those of the Scottish Government, we liaise with Scottish Government finance colleagues on a regular basis to provide them with information relating to our expenditure and anticipated outturn. Our Framework Agreement sets out our relationship with Scottish Ministers.

As Accountable Officer, I am responsible for:

- » the propriety and regularity of financial transactions which have taken place under my control;
- » the economic, efficient and effective use of resources provided to the SHR;
- » ensuring that arrangements are made to secure Best Value;
- » signing our annual accounts;
- » ensuring that effective governance and management systems are in place; and
- » ensuring that all risks are identified, assessed and managed appropriately.

Purpose of the governance framework and system of internal control

Our governance framework comprises of the systems, processes, cultures and values by which the organisation is managed and controlled. It enables us to monitor progress against our aims and objectives and to ensure the efficient and effective use of resources.

Our system of internal control is a significant part of this framework, based on an ongoing process designed to:

- » identify the principal risks to the achievement of our statutory purpose, aims and objectives;
- » evaluate the nature and extent of those risks; and
- » manage risks efficiently, effectively and economically.

This system is designed to manage risk to a reasonable level, rather than eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness.

Our internal control processes accord with guidance from Scottish Ministers provided in the Scottish Public Finance Manual (SPFM). These processes have been in place for the year ended 31 March 2014 and up to the date of approval of the annual report and accounts.

The SPFM is issued by Scottish Ministers to provide guidance to relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety.

Governance framework

We have a clearly defined governance framework which takes account of governance best practice principles and guidance for Board members of public bodies.

Scottish Housing Regulator Board

Our organisation is led by a Board of eight non-executive members, appointed by Scottish Ministers following an open public appointments process. The Board is responsible for providing strategic direction and oversight of our aims, objectives and financial performance. The Board met eight times in 2013/14 to fulfil this role. All meetings were quorate. Minutes of the meetings, our Board Code of Conduct and Board members' registers of interest are publicly available on our website. Members also took part in additional workshops and events to consider a wide range of topics, including regulatory policy development, our approach to risk management and other corporate governance matters.

Board appointments are made by Scottish Ministers and overseen by the Commissioner for Ethical Standards in Public Life in Scotland (from July 2013 - previously the Commissioner for Public Appointments in Scotland). Our Chair is subject to annual appraisal by the Scottish Government's Director of Housing, Regeneration and Welfare and each Board Member is subject to an annual appraisal by our Chair. Members participate in regular training and carry out an annual review of the Board's effectiveness.

Membership of the Board during the period April 2013 to the end of March 2014 is provided below:

- » Kay Blair, Chair
- » Simon Little
- » Sid Patten
- » Lisa Peebles
- » Mike Dailly
- » Anne Jarvie
- » Russell Pettigrew
- » Wesley Mitchell

Audit and Risk Assurance Committee

Our Audit & Risk Assurance Committee provides assurance to our Board and Chief Executive, as Accountable Officer, that appropriate risk, control and governance structures are in place. The Audit & Risk Assurance Committee met five times in 2013/14 (2 April 2013, 19 June 2013, 19 September 2013, 13 December 2013 and 21 March 2014) and membership comprised of the following members of the Board:

- » Sid Patten, Chair
- » Lisa Peebles
- » Anne Jarvie
- » Russell Pettigrew
- » Wesley Mitchell (from March 2014)

The Committee's role is to provide assurance to our Board, and to me as Accountable Officer, that appropriate risk, control and governance structures are in place. I have considered the matters raised and discussed by the Board and Audit & Risk Assurance Committee when preparing this statement.

Throughout 2013/14 our Board and Executive Team received regular reports to monitor progress against the objectives in our Corporate Plan 2012-15 and annual operating plan, and to ensure the effective management of risk.

Risk and control framework

All bodies subject to the requirements of the SPFM must operate a risk management strategy in accordance with relevant guidance issued by Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM.

Our risk management strategy was developed by the Board and along with our risk register, identifies the key risks to the delivery of our statutory, strategic and corporate objectives. Our Executive Team reviews and updates the risk register monthly, and then reports to both the Audit & Risk Assurance Committee and Board on a quarterly basis.

These reviews enable us to:

- » discuss and evaluate key risks that could affect our ability to deliver our objective;
- » assess existing controls (i.e. measures in place to reduce or limit risk);
- » determine the appropriate response to each risk;
- » allocate responsibility for managing each risk to a risk owner; and
- » profile our risks by ranking them in order of overall risk exposure (in terms of likelihood and impact).

The following principal risks have been identified in our risk register as potentially having the greatest impact on our future activities:

- » Challenges to our resource deployment arising from changes which may affect a large number of social landlords (such as welfare reform and the impact of pension costs on RSLs);
- » The financial impact on RSLs and our response; and
- » Our current business support applications not fully meeting our business needs.

For these risks, and the others identified within our risk register, we have developed an action plan which sets out the controls we have in place to manage the risk and any further actions we are taking. I am satisfied that our arrangements have enabled us to identify and manage risk effectively during 2013/14.

For data and information handling risks, I am assisted by our Senior Information Risk Officer and Information Asset Officer. There were no data incidents in 2013/14. During the year we continued to embed our electronic records management which has improved how we record and retain information. In 2013/14 we performed a detailed review of information management and we approved new Records Management, Records Retention and Information Security policies. Work to embed these policies will continue in 2014/15.

We have established fraud, whistleblowing and anti-bribery policies, and a fraud response plan, to ensure the effective management of risks associated with these issues.

Best Value

In accordance with the principles of Best Value, we aim to foster a culture of continuous improvement. Our Executive Team and managers are encouraged to review, identify and improve our ways of working in order to ensure the most efficient and effective use of resources.

We have established a framework for reviewing our progress against the seven Best Value themes in the Scottish Government's Guidance for Accountable Officers. We plan to review all seven themes within the three year period of our Corporate Plan 2012-15. During 2013/14 we carried out an assessment of our arrangements relating to our 'Use of Resources – Financial Management' and 'Equalities'. We reported the findings to our Audit & Risk Assurance Committee and produced action plans in response. The plans will be monitored by the Executive Team and the Audit and Risk Assurance Committee during 2014/15.

Review of adequacy and effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of our systems of internal control and corporate governance. My review is informed by:

- » annual certificates of assurance and internal control checklists from the Director of each of our divisions;
- » the work of our internal auditors, who submitted regular reports to our Audit Risk & Assurance Committee;
- » comments made by our external auditors in their management letters and other reports; and
- » quarterly reports to our Board from the Chair of the Audit & Risk Assurance Committee.

Our system of internal control and corporate governance has been supported by:

- » regular Board meetings and workshops;
- » monthly meetings of our Executive Team; and
- » regular monitoring and reporting of performance against our operating plan and other areas of corporate performance, including finance and risk management.

We use and rely on the core financial management systems of the Scottish Government to carry out accounting and payment functions. I have received assurances from the Scottish Government that reliance can be placed on the central systems they provided in 2013/14.

We are committed to a process of continuous improvement and we develop our systems in response to any relevant reviews and advancements in best practice. In the period covering the year to 31 March 2014 and up to the signing of the accounts, we liaised with Scottish Government Internal Audit, Audit Scotland and Scottish Government Accountancy Services to ensure that our internal control procedures were fit for purpose and compliant.

During 2013/14, our internal auditors have completed their risk-based internal audit plan with specific work on our IT project and on how we manage certain aspects of our regulatory work.

Internal Audit has provided substantial assurance in relation to the work undertaken. A small number of low priority recommendations to enhance controls have been identified and we will take action to respond to these in 2014/15.

I am satisfied that no significant control weaknesses or issues have arisen during 2013/14. There have been no significant failures in expected standards for good governance, risk management and control.



Michael Cameron

Chief Executive, 26 August 2014

Independent auditor's report to the Scottish Housing Regulator, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of the Scottish Housing Regulator for the year ended 31 March 2014 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes to the accounts. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2013/14 Government Financial Reporting Manual (the 2013/14 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of Accountable Officer and auditor

As explained more fully in the Statement of the Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- » give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2014 and of its net operating cost for the year then ended;
- » have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 FReM; and
- » have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Opinion on regularity

In my opinion in all material respects:

- » the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and
- » the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

Opinion on other prescribed matters

In my opinion:

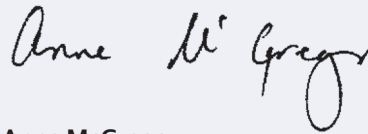
- » the part of the Remuneration Report to be audited has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- » the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- » adequate accounting records have not been kept; or
- » the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- » I have not received all the information and explanations I require for my audit; or
- » the Governance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.



Anne McGregor

27 August 2014
Senior Audit Manager
Audit Scotland
4th Floor, South Suite, The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

Annual Accounts 2013/14

Statement of Comprehensive Net Expenditure for the year ended 31 March 2014

	Note	2013-14 £000	2012-13 £000
Administration costs:			
Staff costs	2	2,712	2,902
Other administrative costs	3	993	791
Total		3,705	3,693
Net operating cost		3,705	3,693

The Scottish Housing Regulator has made no gains or losses during the period, other than as reported above.

The results for the year ended 31 March 2014 derive from the ordinary activities of the Scottish Housing Regulator, all of which are continuing.

Statement of Financial Position as at 31 March 2014

	Note	2014 £000	2013 £000
Non-current assets			
Property, plant and equipment	4	223	3
Intangible assets	5	924	
Total non-current assets		1,147	3
Current assets			
Trade and other receivables	7	0	-
Cash and cash equivalents	8	1	1
Total current assets		1	1
Total assets		1,148	4
Current liabilities			
Trade and other payables	9	(447)	(239)
Provisions	10	(48)	(44)
Total current liabilities		(495)	(283)
Non-current assets less net current liabilities		653	(279)
Non-current liabilities			
Provisions	10	(164)	(184)
Total non-current liabilities		(164)	(184)
Assets less liabilities		489	(463)
Taxpayers' equity			
General Fund		489	(463)
Total taxpayers' equity		489	(463)



Michael Cameron
Chief Executive, 26 August 2014

Statement of Cash Flows for the year ended 31 March 2014

	Note	2013-14 £000	2012-13 £000
Cash flows from operating activities			
Net operating cost		(3,705)	(3,693)
Adjustments for non-cash transactions:			
Depreciation	4	4	8
Auditor's remuneration	11	21	21
Movement in working capital:			
(Increase) / Decrease in trade and other receivables	7	0	1
Increase / (Decrease) in trade and other payables	9	208	(1)
Less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		(127)	-
Use of provisions	10	(16)	(44)
Net cash outflow from operating activities		(3,615)	(3,708)
Cash flows from investing activities			
Purchase of property, plant & equipment		(203)	-
Purchase of intangible assets		(818)	-
Net cash outflow from investing activities		(1,021)	-
Cash flows from financing activities			
Scottish Government funding		4,636	3,708
Net financing		4,636	3,708
Net increase / (decrease) in cash equivalents			
Cash and cash equivalents at beginning of period	8	1	1
Cash and cash equivalents at end of period	8	1	1

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2014

	Note	General Fund £000	Total Reserves £000
Balance at 1 April 2012		(499)	(499)
Non-cash charges – auditor's remuneration	11	21	21
Comprehensive expenditure for the year		(3,693)	(3,693)
Net funding		3,708	3,708
Balance at 31 March 2013		(463)	(463)
Non-cash charges – auditor's remuneration	11	21	21
Comprehensive expenditure for the year		(3,705)	(3,705)
Net funding		4,636	4,636
Balance at 31 March 2014		489	489

Notes to the Accounts

1. Accounting Policies

The financial statements have been prepared in accordance with the 2013-14 Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Scottish Housing Regulator for the purposes of giving a true and fair view has been selected. The particular policies adopted by the Scottish Housing Regulator are described below. The policies have been applied consistently in dealing with items considered material to the accounts.

1.1. Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment and intangible assets where material, at their value to the organisation by reference to their current costs.

1.2. Going Concern

The financial statements for the year ended 31 March 2014 show a surplus on the general fund of £0.489m (12-13 – deficit of £0.463m). This has arisen as a result of the requirement to account for the activities of the Scottish Housing Regulator on an accruals basis, whilst recording funding from the Scottish Government on a cash basis. Net current liabilities will be funded by the Scottish Government as they arise. As a consequence, these financial statements have been prepared on a going concern basis.

1.3. Administration and Programme Expenditure

The Statement of Comprehensive Net Expenditure is analysed between administration and programme expenditure. The classification of expenditure as administration or programme follows the definition of administration costs set out in Consolidating Budgeting Guidance 2013-14 by HM Treasury.

1.4. Non-Current Assets

1.4.1. Property, Plant and Equipment

The minimum level for capitalisation of non-current assets is £5,000. Where multiples are purchased together, and individual values are less than £5,000, they are capitalised if their collective value exceeds £5,000.

Non-current assets are depreciated on a straight line basis at rates sufficient to write-off the cost of the individual assets over their estimated useful lives, which are considered to be:

- » ICT Equipment – 3 years
- » Bespoke ICT Equipment – 3 years


ICT assets are carried at valuation in existing use. Depreciated historical cost has been used as the proxy for valuation in existing use for ICT equipment as it is not practicable to obtain valuations due to the low values and high volumes of this class of assets.

1.4.2. Intangible Assets

The minimum level for capitalisation of intangible assets is £5,000. Where multiples are purchased together, and individual values are less than £5,000, they are capitalised if their collective value exceeds £5,000.

Intangible assets are recognised initially at cost, comprising all directly attributable costs needed to create, produce and prepare the asset to the point that it is capable of operating in the manner intended. Subsequently, they are measured at fair value. Where an active (homogenous) market exists, intangible assets are carried at fair value. Where no active market exists, the intangible asset is revalued, using indices or some other suitable model, to the lower of depreciated replacement cost and the value in use where the asset is income generating. Where there is no value in use, the intangible asset is valued using depreciated replacement cost. These measures are a proxy for fair value.

Software licences are disclosed separately as intangible assets in accordance with the FReM.



Intangible assets are amortised on a straight line basis at rates sufficient to write off the costs of the individual assets over their estimated useful lives, which are considered to be:

- » Computer software, internally developed – 7 years
- » Computer software, licences – 3 years or life of licence if shorter

1.5. Leases

The Scottish Housing Regulator leases two floors within a Scottish Government leased building. This lease is an operating lease and the rentals payable in that respect are charged to the statement of comprehensive net expenditure on a straight line basis over the term of the lease.

1.6. Provisions

Provisions are made to the extent that the Scottish Housing Regulator meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Scottish Housing Regulator provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated future years' payments.

1.7. Trade Payables

The Scottish Housing Regulator's policy is to pay all invoices, not in dispute, within 10 days of receipt. The Scottish Housing Regulator aims to pay 100% of invoices, including disputed invoices, once any dispute has been resolved, on time in these terms.

1.8. Value Added Tax

Operating costs are stated net of VAT where VAT is recoverable by the Scottish Housing Regulator.

The Scottish Housing Regulator is registered for VAT as part of the Scottish Government, which is responsible for recovering VAT from HM Revenue & Customs.

1.9. Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit scheme is unfunded and is non-contributory except in respect of dependants' benefits.

The Scottish Housing Regulator recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution scheme, the Scottish Housing Regulator recognises the contributions payable for the year.

1.10. Income

The Scottish Housing Regulator does not undertake any income generating activities.

1.11. Short Term Employee Benefits

A liability and an expense is recognised for holiday days, holiday pay, bonuses and other short-term benefits when the employees render service that increases their entitlement to these benefits. As a result accruals have been charged for holidays and flexi time earned but not taken at the year end.

1.12. Post Balance Sheet Events

There have been no post balance sheet events of which the Scottish Housing Regulator is aware.

1.13. Impact of New Accounting Standards Issued But Not Yet In Effect

International Accounting Standard (IAS) 8 requires disclosure of information on the expected impact of applying new accounting standards that have been issued but are not yet in effect.

A number of new accounting standards have been issued or amendments made to existing standards, but have not yet been applied in these financial statements. The standards that are considered relevant and the anticipated impact on the Scottish Housing Regulator's accounts are as follows:

IFRS 13 – Fair Value Measurement

This will apply for all accounting periods commencing on or after 1 January 2015. The standard requires fair value to be measured using the most reliable data and inputs available to determine the exit price of an asset or liability. The impact on the accounts has not yet been determined.

2. Staff Numbers and Related Costs

	Permanently employed staff	Others	2013-14 £000	2012-13 £000
	1,991	-	1,991	1,912
Wages and salaries	179	-	179	170
Social security costs	409	-	409	386
Other pension costs	-	64	64	192
Inward secondments	-	23	23	178
Temporary staff	15	-	15	2
Movement in short term employee benefits				
Early retirement	31	-	31	62
	2,625	87	2,712	2,902

Average number of persons employed

The average number of whole time equivalent persons employed during the year ended 31 March 2014 was as follows:

	Permanently employed staff	Others	2013-14	2012-13
Directly employed	46.9	1.2	48.1	52.2
Other	-	1.1	1.1	-
Staff engaged on capital projects	0.4	1.1	1.5	1.3
	47.3	3.4	50.7	53.5

Reporting of Civil Service and other compensation schemes – exit packages

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	0 (0)	0 (0)	0 (0)
£10,000 – £25,000	0 (0)	0 (<5)	0 (<5)
£25,000 – £50,000	0 (0)	0 (0)	0
£50,000 – £100,000	0 (0)	0 (0)	0 (0)
£100,000 – £150,000	0 (0)	0 (0)	0 (0)
£150,000 – £200,000	0 (0)	0 (0)	0 (0)
Total number of exit packages	0 (0)	0 (<5)	0 (<5)
Total resource cost / £000	0 (0)	0 (246)	0 (246)

(Prior year figures are in brackets)

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the Scottish Housing Regulator has agreed early retirements, the additional costs are met by the Scottish Housing Regulator and not by the Civil Service Pension Scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

3. Other Administrative Costs

	2013-14 £000	2012-13 £000
Accommodation expenses	339	339
Travel and subsistence	42	40
IT costs	145	57
Support and consultancy	97	46
Conferences and seminars	20	14
Stakeholder engagement	112	82
Marketing	17	24
Professional fees and subscriptions	5	6
Non-executive board members' fees & expenses	87	56
Training and development	62	52
Catering	9	7
HR and recruitment costs	3	1
Office expenses	30	38
Auditor's remuneration (notional charge – note 11)	21	21
Depreciation	4	8
Total	993	791

Auditor's remuneration relates to a charge notified by Audit Scotland in respect of audit work carried out during 2013-14. No other services were supplied by Audit Scotland during the year ended 31 March 2014.

4. Property, plant and equipment

	ICT Equipment £000	2014 Total £000
Cost		
At 1 April 2013	33	33
Additions	224	224
Disposals	(6)	(6)
At 31 March 2014	251	251
Depreciation		
At 1 April 2013	30	30
Charged in year	4	4
Disposals	(6)	(6)
At 31 March 2014	28	28
Carrying value at 31 March 2013	3	3
Carrying value at 31 March 2014	223	223

	ICT Equipment £000	2013 Total £000
Cost		
At 1 April 2012	38	38
Additions	-	-
Disposals	(5)	(5)
At 31 March 2013	33	33
Depreciation		
At 1 April 2012	27	27
Charged in year	8	8
Disposals	(5)	(5)
At 31 March 2013	30	30
Carrying value at 31 March 2012	11	11
Carrying value at 31 March 2013	3	3

5. Intangible Assets

	Information Technology £000	Software Licences £000	2014 Total £000
Cost			
At 1 April 2013	-	-	-
Additions	802	122	924
Disposals	(0)	(0)	(0)
At 31 March 2014	802	122	924
Amortisation			
At 1 April 2013	-	-	-
Charged in year	-	-	-
Disposals	-	-	-
At 31 March 2014	-	-	-
Carrying value at 31 March 2013	-	-	-
Carrying value at 31 March 2014	802	122	924

	Information Technology £000	Software Licences £000	2013 Total £000
Cost			
At 1 April 2012	-	-	-
Additions	-	-	-
Disposals	-	-	-
At 31 March 2013	-	-	-
Amortisation			
At 1 April 2012	-	-	-
Charged in year	-	-	-
Disposals	-	-	-
At 31 March 2013	-	-	-
Carrying value at 31 March 2012	-	-	-
Carrying value at 31 March 2013	-	-	-

6. Financial Instruments

IFRS 7, Financial Instruments: Disclosures, requires disclosure of information about the significance of financial instruments held by the entity over the year and the nature and extent of risks arising from those financial instruments. The Scottish Housing Regulator is not exposed to the degree of financial risk faced by business entities because of the non-trading nature of its activities and the way in which it is funded. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which IFRS 7 mainly applies. Financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing the entity in undertaking its activities.

Liquidity Risk

The Scottish Parliament makes provision for the use of resources by the Scottish Housing Regulator in a Budget Act for each financial year. Cash authorisation is provided by the Scottish Government to the extent that expenditure is covered by budget authority. The Scottish Housing Regulator is not therefore exposed to liquidity risks.

Fair Values

Assets and liabilities are carried at fair value in the Balance Sheet of the Scottish Housing Regulator. The Scottish Housing Regulator's financial assets consist of cash at bank (note 7) and trade receivables (note 6). The financial liabilities consist of trade payables and other current liabilities (note 8).

7. Trade Receivables

	2013-14 £000	2012-13 £000
Prepayments	-	-
Input VAT Debtor	-	-
	-	-

Intra-government balances	2013-14 £000	2012-13 £000
Balances with other central government bodies	-	-
Balances with bodies external to government	-	-
	-	-

8. Cash and cash equivalents

The following balances were held at 31 March 2014:

	2013-14 £000	2012-13 £000
Commercial banks and cash in hand	1	1
Balance at 31 March 2014	1	1

9. Trade Payables and other current liabilities

	2013-14 £000	2012-13 £000
Trade Payables	280	47
Accruals	167	192
Other Payables	-	-
	447	239

Intra-government balances	2013-14 £000	2012-13 £000
Balances with other central government bodies	-	-
Balances with bodies external to government	447	239
	447	239

10. Provisions for liabilities and charges at 31 March 2013

	Early Departure Costs £000	Other £000	Total £000	2013 £000
Balance at 1 April 2013	228	-	228	272
Provided in the year	31	-	31	-
Provisions not required written back	-	-	-	-
Provisions utilised in the year	47	-	47	44
Unwinding of discount	-	-	-	-
Balance at 31 March 2014	212	-	212	228

Analysis of the expected timing of cash flows

	Early Departure Costs £000	Other £000	Total £000
Not later than 1 year	48	-	48
Later than 1 year and not later than 5 years	164	-	164
Later than 5 years	-	-	-
Balance at 31 March 2014	212	-	212

11. Notional Charges

The following charge has been included in the accounts:

	2013-14 £000	2012-13 £000
Auditor's remuneration	21	21
	21	21

12. Related Party Transactions

The Scottish Housing Regulator is a Non Ministerial Department within the Scottish Administration. The Scottish Government is regarded as a related party. During the year, the Scottish Housing Regulator had various material transactions with the Scottish Government and with other entities for which the Scottish Government is regarded as a parent body.

In addition, the Scottish Housing Regulator has had a small number of material transactions with other government departments, central government bodies, local government, non-departmental public bodies and similar organisations.

During the year, apart from their service contracts, no Board member, key manager or related parties has undertaken any material transactions with the Scottish Housing Regulator.

13. Pensions

Pension benefits are provided through the Civil Service pension arrangements. The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. The Scottish Housing Regulator is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

During the year ended 31 March 2014, employers' contributions of £0.409m (2012 £0.386m) were payable to the PCSPS at one of four rates in the range 16.7 to 24.3 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2013-14 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

14. Capital Commitments

Contracted capital commitments at 31 March 2014 not otherwise included in these accounts:

	2013-14 £000	2012-13 £000
BI System	300	-
Total	300	-

15. Contingent Liabilities

No contingent liabilities existed at 31 March 2014.

16. Leasing Commitments

At 31 March 2014, the total of future minimum lease payments under non-cancellable operating leases for each of the following periods were:

	2013-14 £000	2012-13 £000
Not later than one year	157	157
Later than one year and not later than five years	155	311
Later than five years	–	–

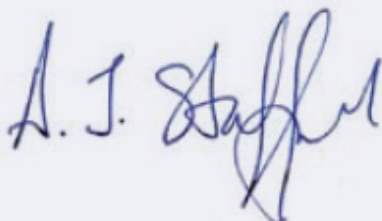
17. Losses

No losses were incurred by the Scottish Housing Regulator during the year ended 31 March 2014.

Scottish Housing Regulator

**Direction by the Scottish Ministers
in accordance with section 19(4) of the Public Finance
and Accountability (Scotland) Act 2000**

1. The statement of accounts for the financial year ended 31 March 2009 and subsequent years shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.
2. The accounts shall be prepared so as to give a true and fair view of the income and expenditure, recognised gains and losses, and cash flows for the financial year, and of the state of affairs as at the financial year.
3. This direction shall be reproduced as an appendix to the statement of accounts.



Signed by the authority of the Scottish Ministers

Dated: 11 March 2009



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Scottish Housing
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