Scottish Housing Regulator

Report on Intervention at Muirhouse Housing Association

September 2016

About us

We are the independent Regulator of just under 200 social landlords – around 160 Registered Social Landlords (RSLs) and 32 local authorities. We are led by a Board of non-executive members and directly accountable to the Scottish Parliament.

Our one objective is **to safeguard and promote the interests of**

- nearly 600,000 **tenants** who live in homes provided by social landlords
- around 120,000 **owners** who receive services from social landlords
- around 40,000 **people and their families** who may be homeless and seek help from local authorities
- over 2,000 **Gypsy / Traveller** families who use 29 official sites provided by social landlords.

Our role is to gather, monitor, assess and report on social landlords' performance of housing activities and RSLs' financial well-being and standards of governance, and to intervene where appropriate to achieve our objective. We also keep a public register of social landlords.

You can see more on how we regulate social landlords in our published Regulatory Framework, available on our website www.housingregulator.gov.scot.

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Executive Summary

1. The Housing (Scotland) Act 2010 (the Act) requires the Scottish Housing Regulator to carry out its functions in a way that is proportionate and targeted only where action is needed. The effect of this is to set a high threshold for intervention. This means that intervention will take place only where the Regulator is satisfied that there has been a breach of Regulatory Standards and it will not be possible for the regulated body to address the issues that arise from the breach without intervention.

2 In December 2014, following engagement with Muirhouse Housing Association (Muirhouse), we concluded that it was failing to meet Regulatory Standards and it would not be possible for it to address the issues that it faced without intervention. We therefore appointed a manager to Muirhouse under section 58 of the Act and three additional officers to the governing body under section 65 of the Act. The appointment of the statutory manager ended in December 2015 and the appointments to the governing body ended in June 2016.

3. We had engaged with Muirhouse over a period of approximately 21 months before intervention. Details of our regulatory engagement with Muirhouse prior to intervention are set out in published Regulation Plans for this period.

4. Our initial engagement was focussed on seeking assurance from Muirhouse about its business and how it was managing the risks involved with its development plans. When it became clear that Muirhouse was unable to provide us with the financial and business planning information which would provide this assurance, we asked Muirhouse to commission an independent financial assessment. This was to provide us with the assurance we needed about its financial position, the impact of its development activity and the robustness of its financial processes.

5. The independent financial assessment identified a serious and urgent risk to Muirhouse's financial health. It also highlighted a number of serious weaknesses in its governance and financial management which represented a serious departure from the Regulatory Standards of Governance and Financial Management.

6. Throughout the period of regulatory engagement that preceded intervention we closely monitored the financial health of Muirhouse. During the period from October to December 2014 we became aware of significant new information which indicated that the risk to the financial health of Muirhouse had become serious and imminent.

7. This information, together with the evidence from 21 months of regulatory engagement, led us to conclude that it would be appropriate and proportionate for us to intervene. We appointed a manager under Section 58 of the Act and three officers to the governing body under Section 65 of the Act.

8. In early December 2014 we published a Regulation Plan which set out the main issues that had given rise to intervention. These were:

- a serious and imminent risk to the financial health of Muirhouse arising from the RSL deciding to commence a new phase of its development programme before it had the necessary funding in place;
- a failure to get regulatory consent prior to a disposal of properties to its subsidiary company thus making the disposal legally void and risking the RSL's charitable status; and
- a recently identified potential risk to the ability of Muirhouse to achieve the Scottish Housing Quality Standard (SHQS) for around one third of its houses.

9. We intervened only when we were satisfied that:

- Muirhouse lacked the capacity and ability to comply with Regulatory Standards;
- this threatened the interests of tenants and service users; and
- it was appropriate and proportionate to deal with these matters through intervention.

10. The statutory manager analysed the issues at Muirhouse that had led to statutory intervention. Muirhouse accepted the manager's conclusions and agreed to implement an action plan to make the necessary improvements to its governance and financial management. Under the direction of the statutory manager and with the support of the three statutory appointees Muirhouse implemented its action plan over an 18 month period.

11. We reviewed our intervention at Muirhouse every six months looking at its progress with its action plan. We considered the reports from the statutory manager and the appointees to the governing body and reviewed progress against the remits for the statutory appointees. We looked for assurance that Muirhouse was able to meet the Regulatory Standards. As a result of progress we decided not to extend the appointment of the statutory manager in December 2015 and ended our intervention in June 2016 when we decided not to extend the appointments to the governing body.

12. Particular thanks are due to the statutory appointees to the governing body, all experienced officers within the RSL sector, who gave generously of their time and expertise to help Muirhouse deliver the necessary change and improvement.

1 Introduction

1.1 The Housing (Scotland) Act 2010 (the Act) gives the Scottish Housing Regulator a single objective, to promote and safeguard the interests of persons who are or who may become homeless, tenants of social landlords, or recipients of housing services provided by social landlords. All of our work is directed toward the achievement of this objective.

1.2 Under the Act the Regulator's general functions are to keep a publicly available register of social landlords, and to monitor, assess and report regularly on (and, where appropriate, to make regulatory interventions relating to) social landlords' performance of housing activities, and registered social landlords' financial well-being and standards of governance.

1.3 The Act also gives the Regulator flexible and graduated interventions so that we can apply the most effective intervention when we need to protect the interests of tenants or protect an RSL's assets. Further details are given in our Regulatory Framework.

1.4 In the Regulatory Framework we set out when it would be appropriate to make regulatory interventions:

> *"We will not normally need to intervene if we are satisfied that the landlord is able and willing to address our concerns. We need to be confident that the regulated body is taking its problems seriously, is committed to tackling them, and engaging constructively to satisfy us that it is able to deal effectively and speedily with its problems. We want to give the regulated body the opportunity to resolve problems or secure improvement itself … We will intervene where the organisation's own attempts are unsuccessful or we are not confident that the organisation is able or willing to tackle its problems. If a regulated body does not co-operate, is obstructive, and does not comply with our requirements then it leaves us with no alternative but to intervene."*

1.5 The Regulatory Framework also sets out six Regulatory Standards of Governance and Financial Management with supporting guidance. These require:

1. The governing body to lead and direct the Registered Social Landlord (RSL) to achieve good outcomes for its tenants and other service users;

2. Openness and accountability from the RSL for what it does. And a primary focus on the sustainable achievement of the priorities of tenants, service users and stakeholders;

3. Management of resources by the RSL to ensure its financial well-being and economic effectiveness;

4. Decisions based on good quality information and advice which identifies and mitigate the risks to the RSL's purpose;

5. The RSL to conduct its affairs with honesty and integrity; and

6. The governing body and senior officers to have the skills and knowledge they need to be effective.

1.6 Muirhouse was registered as a social landlord in 1992. At December 2014 it owned and managed 460 houses in north west Edinburgh. It has charitable status and currently employs eight people. It has one subsidiary, Muirhouse Homes Limited, that it established in 2014 to manage its mid-market rent properties. The turnover for Muirhouse for the year ended 31 March 2015 was just over £2.1 million.

1.7 In December 2014, following engagement with Muirhouse for a period of 21 months, we concluded that it was failing to meet Regulatory Standards and it would not be possible for it to address the issues that it faced without intervention. We therefore appointed a manager to Muirhouse under section 58 of the Act and three additional officers to the governing body under section 65 of the Act.

1.8 When we intervened in Muirhouse we undertook to publish an account of our intervention when it concluded. The appointment of the statutory manager ended in December 2015 and the appointments to the governing body ended in June 2016.

1.9 In this report we set out a summary of the events that led to intervention and the actions that followed. We provide a timeline of the events that preceded our decision to intervene, the reasons for intervention as well as a description of the actions taken by the statutory manager, the governing body appointees and by Muirhouse itself to address the issues that led to intervention.

2 Timeline to intervention

2.1 In February 2013, we completed the financial risk assessment for Muirhouse as part of our annual risk assessment. The five year financial projections return showed that it had no plans for housing development for the next five years.

2.2 At the same time, we received information from the Scottish Government that Muirhouse was planning new development of up to 204 homes in the next five years over three phases. This information also confirmed that 107 of the 204 new homes would be for mid-market rent. Muirhouse had not developed any housing for a number of years and had no experience of developing mid-market housing.

2.3 When we asked Muirhouse about this, it told us it had begun development of Phase 1 including 34 homes for rent and 24 houses for mid-market rent. It was unable to offer a satisfactory explanation as to why its financial projections did not include this development activity.

2.4 In February 2013 we asked Muirhouse for a Business Plan and financial projections based on its then current activity and intentions, including the new development. Muirhouse was unable to supply this information or to provide a satisfactory explanation for its failure to provide the information.

2.5 In April 2013, we again asked Muirhouse to provide us with the necessary assurance about its overall financial capacity and viability in the light of its development and subsidiary activity. At this time, we decided to have medium engagement with Muirhouse and published a Regulation Plan which asked it to provide the following information for both it and its subsidiary:

- a business plan; scenario planning, sensitivity analysis of its key business planning assumptions; and
- 30 year projections, consisting of income and expenditure statement, balance sheet and cash flows, plus sensitivity analysis and covenant calculations and results.

2.6 During the period from April 2013 to February 2014 we engaged extensively with Muirhouse. We set a number of deadlines for the provision of the additional information we needed but, on each occasion, Muirhouse failed to provide the information that we required. Throughout this period we closely monitored the financial health of Muirhouse and were able to satisfy ourselves, from the information that we did have, that there was no short term risk.

2.7 Following the 2014 risk assessment, which included a comprehensive review of the financial risk to Muirhouse, we published a Regulation Plan in March 2014 which set out the measures that we would take and also made it clear that Muirhouse had failed to give us the information we had requested. The

Regulation Plan gave Muirhouse a deadline of 30 April 2014 to submit a business plan and supporting information.

2.8 Muirhouse failed to meet this deadline. In the course of the next few weeks Muirhouse gave a number of undertakings to deliver the information that we required by a specified date. On each occasion it failed to deliver these.

2.9 On 14 July 2014, ten weeks after the original submission deadline, Muirhouse did send us a business plan but it was incomplete in many important details. It lacked a sensitivity analysis for the RSL and any business plan or projections for the subsidiary. We reviewed the financial information and found it was inconsistent with the 5 Year Financial Projections return which it had submitted to us the previous month. The business plan was of poor quality and we told Muirhouse that it did not comply with our Recommended Practice on Business Planning. At the start of August 2014 Muirhouse submitted sensitivity analysis. However this sensitivity analysis related to work by a consultant which had been carried out in September 2013 and not the projections submitted to us in July 2014. When we contacted Muirhouse to ask about this, it informed us that the financial information that it had submitted on 14 July was incorrect and was currently being re-worked by consultants.

2.10 On 11 August 2014 we met Muirhouse's governing body. We stressed the importance of regulatory compliance and our increasingly critical need for assurance around Muirhouse's financial health. Muirhouse said at the meeting that revised projections, including sensitivities for the RSL and its subsidiary, would be submitted by 15 August 2014. However, Muirhouse called us on 14 August 2014 to advise that the financial information would not be ready for 15 August 2014. Muirhouse again asked what sensitivity work was needed and we again referred Muirhouse to our Recommended Practice on Business Planning.

2.11 On 21 August 2014 we reviewed the level of risk and the lack of assurance around Muirhouse's financial position. We considered the level of risk to the financial health of Muirhouse had grown and was now a matter of serious regulatory concern. In view of this we concluded that an independent assessment of the organisation's financial viability was urgently required.

2.12 On 26 August 2014 we met representatives of the governing body. We stressed that the multiple failures to comply with regulatory requirements raised serious questions about the management and governance of Muirhouse. Our concern was further heightened as, at that meeting, Muirhouse informed us for the first time that it had commenced Phase 2 of its development and that it had done this without having adequate private finance in place. We considered that, for the first time, there was an unacceptably high risk to the short term financial health of Muirhouse. We advised Muirhouse that it should immediately commission an assessment of its financial health.

2.13 On 9 September 2014 Muirhouse commissioned an independent financial review by a suitably qualified professional consultant. We asked to be kept informed of the progress of the review. In early October we learned that Muirhouse had failed to send the consultant all of the information that was needed for the review. So on 9 October 2014 we wrote to Muirhouse seeking an urgent meeting with the governing body.

2.14 On 24 October 2014 we met representatives of the governing body and expressed grave concern with the failure to make satisfactory progress with the independent financial assessment. We advised the representatives of the governing body that we would be publishing a revised Regulation Plan which would reflect our view of the increased risk to Muirhouse's financial health and would set out how we planned to discharge our regulatory functions in the light of this.

2.15 In its 2014 Charter return Muirhouse told us that it anticipated that approximately one third of its stock would fail the Scottish Housing Quality Standard (SHQS). It had previously and consistently indicated that all of its houses would meet SHQS. Muirhouse told us in November 2014 that it was planning a stock condition survey which was scheduled to be completed in January 2015. We expressed very serious concern that this would leave insufficient time to address any failures before the target of 31 March 2015.

2.16 On 12 November 2014 the independent financial assessment was completed. There had been significant delays in Muirhouse providing some key pieces of information so the assessment had taken longer than planned to complete.

2.17 The conclusions raised serious issues including:

- an immediate risk to Muirhouse's financial health arising from the lack of private finance in place for Phase 2 of the project;
- that Muirhouse was financing a major capital project from its own resources and would run out of funds in February 2015;
- a risk to financial health arising from the fact that Muirhouse had not been able to supply information about the subsidiary and its finances;
- a lack of robust decision-making on development coupled with inadequate recording of decisions;
- the absence of a business plan linked to agreed projections, a lack of scenario planning for development and a lack of information and knowledge on the risk of covenant compliance; and
- inadequate financial expertise in Muirhouse, inadequate overview of financial issues and lack of comprehensive advice to the governing body.

Muirhouse advised us that it accepted the conclusions of the report.

2.18 On 18 November 2014 we again met with representatives of the governing body. We stressed the need to immediately address the issues raised in the independent financial assessment and in particular the increasing risk to its solvency. Muirhouse agreed to appoint an interim manager to lead on the actions arising from the independent financial assessment and to seek cooptions to its governing body to provide the additional expertise that the independent assessment had indicated was required. It agreed to provide the financial information for the subsidiary by 21 November.

2.19 Subsequently Muirhouse made no progress in recruiting an interim manager and missed its own deadline for providing the financial information about the subsidiary.

2.20 In early December 2014 we established that Muirhouse had disposed by lease of 24 houses which had been built as part of Phase 1 to its subsidiary without regulatory consent. This meant that the disposal was void and would almost certainly represent a breach of one or more of Muirhouse's loan agreements. This action also created a risk to the RSL's charitable status.

2.21 At this time we reviewed the many risks identified through our engagement, the consistent inability of Muirhouse to understand and address these risks and its failure to provide the information we required. We were particularly concerned about the growing risk to the short term solvency of Muirhouse which had been identified in the independent financial assessment. We also considered the financial risks around the management of the subsidiary, the lack of a business plan and the risks attached to a potential requirement for investment to deliver SHQS compliance which Muirhouse was unable to quantify.

2.22 We concluded that Muirhouse lacked insight into the seriousness of the risk to its financial health and, when presented with many opportunities to address the risks and issues, had failed to do so. These failures had taken Muirhouse to a position where there was an unacceptably high risk to its short term financial health. In our judgment Muirhouse was failing to meet Regulatory Standards, this presented a serious and imminent risk to its tenants and service users and Muirhouse lacked the capacity and ability to handle the risks and issues that it faced.

2.23 We therefore took the view that it was appropriate and proportionate for us to use the powers set out in Section 58 and Section 65 of the Act. We appointed a manager to Muirhouse and also appointed three additional officers to the governing body. We appointed David Jepson as manager and Michael Clarke, Gordon Cameron and Shirley MacDonald to the governing body.

2.24 We issued a revised Regulation Plan on 12 December 2014 which set out the reasons for the statutory appointments and moved Muirhouse from medium to high engagement.

3 Addressing the risks

3.1 The purpose of the intervention was to:

- urgently resolve the risk to the organisation's solvency;
- address the serious risks to Muirhouse's governance and financial management position arising from the issues in the independent financial assessment and assist the governing body to ensure that these issues were resolved;
- consider whether the current governance and financial management processes and procedures were fit for purpose; and
- assist and support the governing body to ensure that Muirhouse's affairs were managed to the Regulatory Standards.

3.2 We asked the statutory manager to:

- develop and implement an action plan to address the serious and urgent risks to Muirhouse's governance and financial management position as set out in the independent financial assessment, and any other issues as required;
- put in place the necessary policies, internal controls and safeguards to ensure the effective financial management of Muirhouse in future;
- ensure Muirhouse had appropriate financial expertise; and
- carry out a strategic review and implement any necessary improvements to ensure that Muirhouse would be able to meet the Regulatory Standards of Governance and Financial Management.

3.3 The statutory manager completed two reports for the governing body in early 2015. The first was an analysis of the issues at Muirhouse that had led to statutory intervention. The statutory manager highlighted a pattern of failure at Muirhouse where it failed to comply with regulatory requirements and significant issues were not brought to the governing body's attention. The statutory manager noted:

"It [Muirhouse] should be clear that the issues identified by the Scottish Housing Regulator are very serious, and it should also be clear that they are problems of our making…..The issues identified were a real threat to the continuity and quality of services to tenants and other service users."

3.4 The statutory manager identified grave weaknesses in management and serious errors in governance as the causes. He commented:

"There are fundamental weaknesses within the governance structure of Muirhouse at all levels….poor leadership, ineffective oversight, weak challenge and inadequate administration. Taking on the complex challenge of development has exposed these weaknesses and seriously damaged the reputation of Muirhouse."

3.5 This report found evidence of multiple and sustained failure to comply with Regulatory Standards and highlighted the following as particularly significant:

- failure of the governing body to understand its own role in directing and controlling the RSL (Regulatory Standard 1);
- failure by the governing body to provide effective overview of finances (Regulatory Standard 3); and
- inadequate record keeping meaning that the corporate memory was unclear and key decisions were not made based on good information and advice (Regulatory Standard 4).

3.6 The second report produced by the statutory manager was an action plan to address the identified weaknesses. The governing body at Muirhouse accepted both reports. Having recognised the scale of failures Muirhouse committed itself to a wholesale programme of change. It then moved forward under the direction of the statutory manager and with the support of the three statutory appointees to implement the action plan.

3.7 The statutory manager's immediate priority was to deal with the risk to Muirhouse's financial health. Muirhouse had borrowed from two lenders. Following a review of treasury management arrangements the statutory manager concluded that all of Muirhouse's borrowing should be consolidated with a single (existing) lender. This was approved by the governing body in February 2015.

3.8 Both lenders had issued reservation of rights letters arising from Muirhouse's failure to comply with Regulatory Standards. Despite this, the statutory manager was able to negotiate terms with one of the lenders that were no less favourable than had been proposed prior to the intervention. Agreements with both lenders were concluded at the beginning of February 2015 – including sufficient finance to complete Phase 2 of the development - thus preventing the exhaustion of Muirhouse's cash reserves.

3.9 The independent financial assessment had highlighted a lack of in-house financial expertise as a significant future risk as well as a major contributory factor to the circumstances that led to intervention. Muirhouse decided to recruit a Finance and Corporate Services Manager who would also deputise for the senior officer. Muirhouse used consultants for this role until it recruited a suitably qualified finance manager in March 2016.

3.10 Prior to intervention Muirhouse had been unable to produce a business plan with appropriate narrative, financial projections and analysis of sensitivities. This raised concerns about a lack of a strategic context for decision-making and a lack of assurance about Muirhouse's medium and long term financial health. The statutory manager produced the first business plan in June 2015.

3.11 The statutory manager found that Muirhouse had failed to keep adequate records and minutes and failed to record details of decisions or any challenge. He made some immediate changes to the templates used for Board papers and minutes and introduced a new policy for the management of governance.

Muirhouse decided to appoint a Corporate Services Assistant to support this. When the new Chair began to work with Muirhouse he further developed the templates for Board papers and minutes.

3.12 Muirhouse's development of new homes included a substantial number of mid-market rent homes, a market for which it had never previously developed. A key failing, prior to intervention, had been the inability of Muirhouse to demonstrate that it had a business plan which incorporated this activity. Muirhouse also used a variety of consultants to provide financial and development support. However the consultants were commissioned to complete only parts of the finance and development functions and none had an appropriate overview.

3.13 The statutory manager with support from consultants:

- clarified the financial position of the subsidiary Muirhouse Homes early in 2015;
- produced a business plan by summer 2015 providing us with assurance about the financial position of the subsidiary;
- established that Muirhouse Homes had not been properly constituted and after taking legal advice established Muirhouse Homes appropriately in February 2015; and
- confirmed that Muirhouse had failed to obtain regulatory consent for disposal by lease to Muirhouse Homes of 24 houses thus rendering the lease void. The statutory manager applied for consent in February 2015 which was duly granted.

3.14 Muirhouse had reported in 2014 that almost one third of its homes would not meet the SHQS. This directly contradicted all previous returns which had indicated compliance. A stock survey was completed in February 2015. This found that all of Muirhouse's stock did in fact meet the standard and the information in the 2014 return was not correct.

3.15 Given the success of the statutory manager in clarifying all of the major uncertainties that had existed prior to intervention – the funding position, the contribution from the subsidiary and SHQS compliance – we were assured that the business plan was consistent with our Business Planning Recommended Practice and was based on the best and most up to date information available.

3.16 The business plan showed that it would be feasible for Muirhouse to continue as an independent RSL provided it could address the governance issues that had led to intervention. Muirhouse carried out an options appraisal on its future in October 2015 and decided to remain as an independent RSL.

3.17 In relation to its governance issues the statutory manager found no evidence of appropriate challenge from the governing body to senior staff. This led him to conclude that there was no effective oversight of the business and a lack of understanding of roles and responsibilities among governing body members.

3.18 Following the resignation of the Chair in April 2015 Muirhouse advertised for a new Chair with housing and governance experience. After an interview process in summer 2015 the new Chair, an experienced former RSL Chief Executive, was appointed from August 2015. The three statutory appointees brought specialist expertise and an independent perspective and supported the governing body during this period to make the necessary changes to its governance. After a review of skills on the governing body Muirhouse established a training programme and advertised and subsequently recruited new governing body members with the required expertise.

3.19 Muirhouse's senior officer left in summer 2015. An appropriately qualified interim manager was appointed until Muirhouse appointed a new senior officer in March 2016.

3.20 Muirhouse met the costs for the remuneration and expenses for the statutory manager and the expenses for the three appointees to the governing body. This amounted to £110,328, covering a period from 12 December 2014 to 9 June 2016.

4 Reviews of intervention

4.1 We reviewed our intervention every six months. To carry out the reviews we looked at:

- the extent to which Muirhouse was meeting Regulatory Standards;
- the continuing level of risk to our objective to protect the interests of tenants and other service users;
- how Muirhouse was progressing with its improvement action plan covering its governance and financial management;
- how far the remits for the statutory manager and appointees to the governing body had been met;
- the progress reports provided by the statutory manager and the appointees to the governing body; and
- the evidence from our update meetings with the governing body and staff.

4.2 We carried out the first review in June 2015. We found the immediate causes of intervention at Muirhouse had been addressed. The statutory manager had secured funding, provided appropriate assurance about the financial position, resolved the risks associated with the subsidiary and accurately established the position with regard to SHQS compliance. As Muirhouse still had most of its action plan to complete we continued the intervention for a further six months. We issued a revised Regulation Plan reflecting the progress made and kept our engagement at high.

4.3 The second review took place in December 2015. We found Muirhouse was making good progress with its action plan and in particular was strengthening its governance with the support of the interim manager and the new Chair. We concluded that Muirhouse now had the potential to meet most of the Regulatory Standards. We also reviewed the remit of the manager and found that this had been fully met. We decided not to extend the appointment of the statutory manager but we extended the appointments to the governing body for a further six months. We did this to provide support to the governing body as it continued to work through the change process, to allow recent changes to take effect and to demonstrate that recent improvements could be sustained. We issued a revised Regulation Plan reflecting the end of the statutory manager's appointment and kept our engagement at high.

4.4 We carried out the final review in June 2016. The appointees told us their remit had been met; this was consistent with the evidence of progress we gathered and our assessment of their role. Muirhouse had appointed a new permanent senior officer and a Finance and Corporate Services Manager. It had further strengthened its governance through additional members on the governing body and improved processes and policy work. We considered that Muirhouse now met Regulatory Standards and it had dealt with the risks to our objective to protect the interests of tenants and service users. We decided not to continue the appointments to the governing body and bring the intervention to an end.

4.5 Muirhouse still had some aspects of its improvement plan to complete in June 2016 and we continue to engage around business planning and asset management strategy. We have continued with high engagement as Muirhouse is managing a challenging period of change in the next few months without the expert support of the statutory appointees.

5 Conclusion

5.1 In each regulatory engagement we develop a view of the competence of the management of the regulated body and the effectiveness of its governance. As our engagement with Muirhouse progressed it was increasingly clear to us that there were serious shortcomings in both its management and its governance. Muirhouse did not demonstrate appropriate oversight of its business and it had not obtained appropriate external assurance about this. This led us to conclude that Muirhouse did not comply with Regulatory Standards.

5.2 We are required by the Act to be proportionate and target our resources only where required. In practice this means that intervention will only take place where an RSL's own attempts to deal with the risks that it faces are unsuccessful and we are not confident that the organisation is able or willing to tackle its problems.

5.3 Muirhouse is our first concluded intervention using our statutory powers. Our decision to intervene came after a period of almost two years of regulatory engagement during which Muirhouse was given appropriate opportunities to manage its risks and issues and address its failure to meet Regulatory Standards without intervention.

5.4 Failure to meet Regulatory Standards is not in itself sufficient grounds to justify intervention. We will not intervene unless there is evidence that a regulated body will not be able to deal with the risks and issues that it faces without intervention.

5.5 In the case of Muirhouse there were two triggers for intervention. The first was the receipt of the report by an independent consultant which concluded that there was a serious and imminent risk to the solvency of Muirhouse. The second was the inability of Muirhouse to address this issue by identifying, procuring and appointing the expertise that was needed to address the risk to its solvency.

5.6 Muirhouse's failure created a risk not only to its own tenants but also to the wider sector. A key objective of the Regulator is to provide assurance to lenders that the RSL sector is a good place to invest. This benefits both RSLs and their tenants in terms of the availability and pricing of private finance to maintain and improve existing stock and to build new homes for future tenants.

5.7 Any insolvency has the potential to risk the reputation of social housing as a "no loss" sector. So in the case of Muirhouse the intervention was designed to protect the interests not just of a single RSL and its tenants but all RSLs and all of their tenants.

5.8 The statutory manager and the appointees to the governing body moved swiftly and provided the leadership and insight that Muirhouse had lacked.

They were able to quickly address the immediate issues and avert insolvency. But all four of the appointees stressed the serious nature of the multiple failings of management and governance at Muirhouse that had taken it to the brink of insolvency. In simple terms the first four months of the intervention were concerned with addressing the immediate risks while the remaining fourteen months dealt with the underlying causes.

5.9 Muirhouse itself deserves credit for recognising the profound changes that had to be made and then working through these with the statutory appointees. It is to the credit of the statutory appointees that these issues were able to be resolved within eighteen months.

5.10 Muirhouse's lenders also adopted a constructive approach to these difficult circumstances. Intervention was in itself a breach of Muirhouse's loan agreements and both lenders issued reservation of rights letters. However by working constructively with the lenders the statutory manager was able to consolidate all of the RSL's requirements with a single lender on terms that were identical to that which had been offered prior to intervention. In this way significant additional expense to the RSL and its tenants was avoided.

5.11 The overall effect of the intervention is that Muirhouse has been transformed from a dysfunctional organisation that was incapable of meeting Regulatory Standards to a functional organisation that is compliant with Regulatory Standards.

Scottish Housing Regulator