



**Scottish Housing
Regulator**



How we work

How we assess risk
in RSLs

Issue 2

June 2015

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**

- nearly 600,000 **tenants** who live in homes provided by social landlords
- around 90,000 **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 500 **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 at: www.scottishhousingregulator.gov.uk.

How we work

We want to be as open as possible about how we regulate so that tenants and service users, landlords and others with an interest in our work have a clear understanding of what we do, how we do it and why we do it.

In our **How we work** series of publications we set out more information about how we regulate in practice. We set out our overall approach to the regulation of social landlords in Scotland in our published Regulatory Framework.



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1 Introduction

In this note, we set out the detail of how we assess risk for RSLs, the information we use and how we decide upon our level engagement with each RSL.

2 Our risk based approach

Our statutory objective is to safeguard and promote the interests of tenants and others who use the services of social housing landlords.

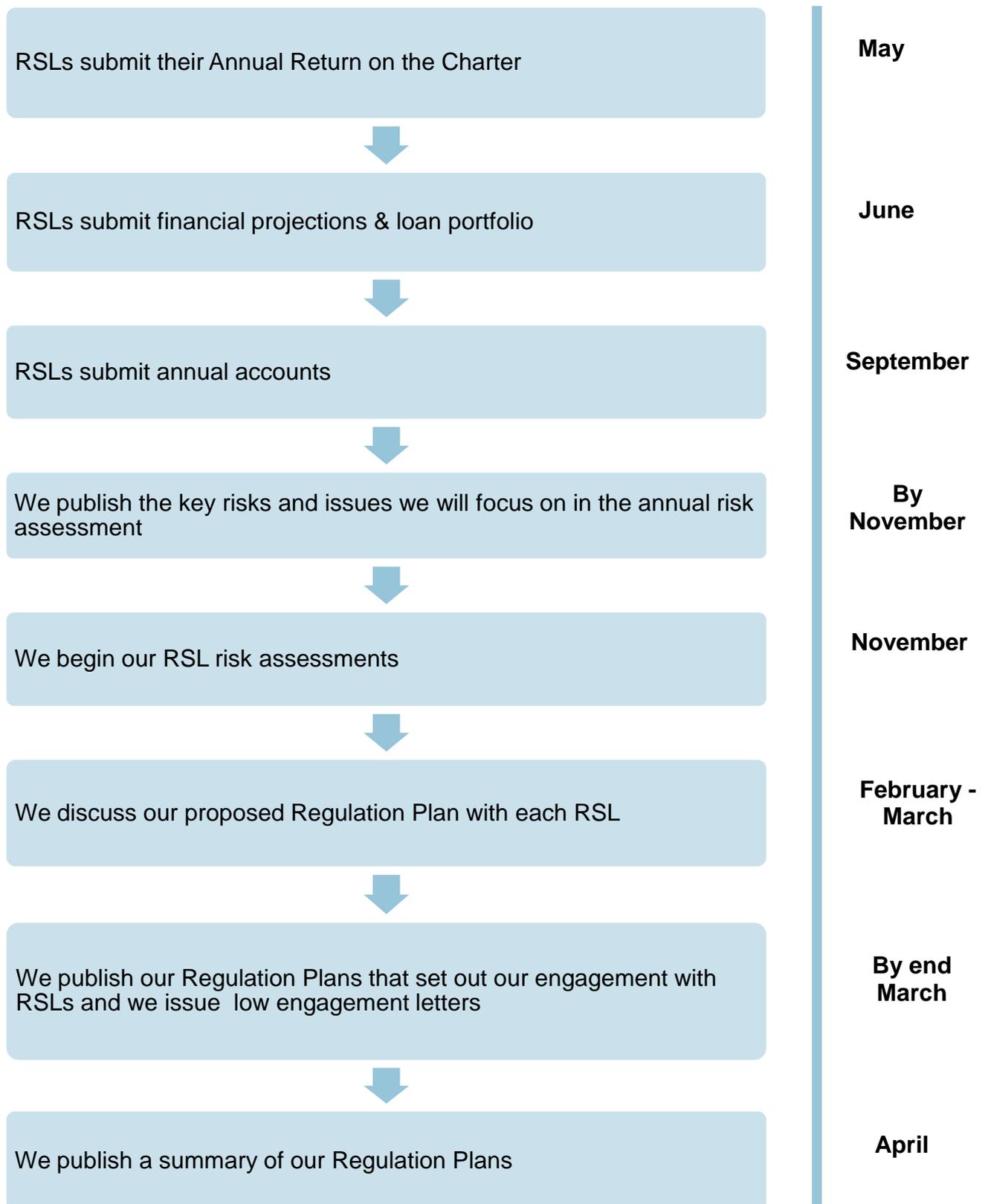
Our statutory role is to monitor, assess and regularly report on all social landlords' performance of housing activities and intervene where appropriate. This means that for both local authorities and RSLs we identify and assess the risks to the quality of the services they deliver to tenants and the quality of their homes. In this regard, we look to the Scottish Government's Social Housing Charter outcomes which social landlords should aim to achieve. We use the information in landlords' Annual Return on the Charter (ARC) to assess risk in these areas for both local authorities and RSLs.

We have a statutory duty to monitor, assess and regularly report on RSLs' financial well-being and standards of governance and so we include these areas in our annual risk assessment for RSLs. We do not have this role with local authorities; Audit Scotland is the lead regulator for governance and finance in local authorities. So we do not include these areas in our risk assessment of local authorities, although we do contribute our views through the Shared Risk Assessment.

Our Regulatory Framework sets out the policies and practices that we use to achieve that objective. We take a risk based and proportionate approach, meaning we focus on the important risks and key aspects of landlords' performance. We use our annual assessment of risk to decide the level of engagement we need with individual councils to help safeguard and promote the interests of tenants and other service users.

As our statutory remit in relation to RSLs is broader than our remit with local authorities we have published a separate How We Work document on our risk assessment for each. You can see more on how we assess risk for local authorities in our publication "How we work: how we assess risk in local authorities' landlord and homelessness functions".

3 Key stages of our risk assessment process



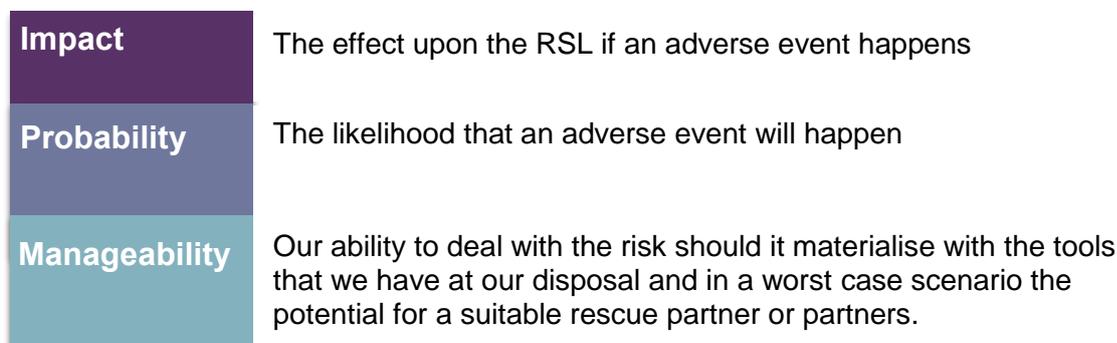
4 How we assess risk

We base our assessment of risk on analysis of four key areas:



In November each year we will publish a summary of the key risks and issues in each of these areas.

When we consider risk, we take account of three factors:



4.1 Information we use to assess risk

Information we gather from RSLs



Each year RSLs give us a range of information which we use to assess risk. This information includes:

- Annual return on the Charter
- Annual statutory accounts for RSLs and their subsidiaries
- Five year financial projections;
- Loan portfolio returns; and
- Reports from statutory auditors to the governing body of the RSL.

Other information we use



We also use other information we gather through our on-going regulatory work. This could include information and investigations as a result of:

- Information from our regulatory engagement with an RSL ;
- Concerns raised directly with us by tenants, other service users and their representative groups , including Significant Performance Failures;
- Whistleblowing and allegations about improper conduct;
- Notifiable events;
- Applications for consent to constitutional change or disposals
- Information gathered during our inquiry work (including thematic inquiries);
- Information about governance contained in the ARC (for example, staff turnover and governing body membership details;
- Scottish Public Services Ombudsman (SPSO) Complaints;
- Information from statutory auditors

Before we complete our overall risk assessment, we might ask an RSL to clarify some of its information, or to give us more information, to help us finalise our assessment.

4.2 How we assess service quality risk

We collect data on performance from all social landlords through the Annual Return of the Charter (ARC).

We assess performance with a view to identifying those landlords whose reported poor performance across a number of indicators suggests there is a potential risk to tenants and other service users interests.

We also consider those things that tenants and other service users tell us matter most to them, through our National Panel and engagement with Regional Networks of Registered Tenants Organisations.

Tenants have told us the following are important to them:

- Satisfaction;
- Complaints handling;
- Repairs;
- Re-lets and void management;
- Rent collection and rent arrears;
- Tenancy sustainment

We also consider important areas such as lets to homeless people and gas safety where there is a legislative duty placed on landlords.

We take into account any other information we hold about an RSL which helps us to look at their reported performance in context. We might seek clarification of some of the information the RSL has reported in their ARC to help us better understand and complete our assessment.

Poor performance on a number of indicators will trigger some form of engagement, for example, we would ask for additional information to give us assurance.

As we build the Charter information year-on-year we will identify and analyse trends to highlight those landlords with consistently poorer or deteriorating performance which could affect tenants and other service users.

4.3 How we assess the quality of tenants homes

Social landlords must ensure their houses meet the Scottish Housing Quality Standard (SHQS).

When we assess risk in relation to the quality of tenants' homes we focus on:

- the level of non-compliance with SHQS (how many houses do not currently meet the SHQS and how many will not meet the SHQS in one year's time) and the reasons for this;
- the quality of the information landlords have about the condition of their houses;
- the RSL's track record in bringing houses up to the SHQS;
- the RSL's financial capacity to keep its houses up to the SHQS; and
- how the RSL is addressing compliance in any houses where there were abeyances or exemptions.

We consider whether it is necessary to engage with an RSL about the quality of tenants' homes based on the extent of non-compliance with SHQS and the reasons for this

4.4 How we assess financial risk

We base our assessment of RSLs' financial well-being on our analysis of a number of set areas. These can include:

Systemic risk

We consider RSLs in terms of stock size, turnover and level of debt, as well as the degree of community dependence.

Financial ratios and trend analysis (including treasury management)

We consider a range of financial ratios which are reliable predictors of financial stress to assess the level of risk.

Group structures (including cross border parents)

We consider the financial impact on group members of the subsidiary/parent having financial health issues.

Other activities

These are defined in the Accounting Determination and include activities such as factoring, support and care activities.

Development activities

We work with the Scottish Government to ensure that we understand its plans on providing development finance to RSLs. The Scottish Government provides us with information on all planned projects, including details of the units, tenure mix and cost over a three year period. We check that the information provided by the Scottish Government is consistent with the financial projections RSLs give us. In general we will view RSLs with larger development programmes, those providing a range of tenures or those where the project is largely or wholly financed from the RSL's own resources as having a greater risk exposure.

Notifiable events of a financial nature and reports under s72 Housing (Scotland) Act 2010

The Act places a duty on external auditors and reporting accountants to disclose events of material significance to us.

Forecasting accuracy

We seek assurance that RSLs are being realistic about the assumptions which underpin their financial projections. We do this by comparing previous forecasts against outcomes.

Pensions

We seek assurance that RSLs understand the scale of the risk from the funding of pensions for employees and that decisions about how to address any historic deficit and future pension provision are taken on an informed basis.

SHQS funding

We seek assurance that RSLs have factored in sufficient resources to their financial projections to deliver and maintain SHQS compliance and ensure the on-going financial health of the RSL.

When we consider financial risk, we take explicit account of when the risk to financial health is likely to happen (sometimes referred to as proximity), as well as the probability and impact of the risk. As a general rule, we prioritise risks that are likely to happen in the short term and have a large impact. But, we may also explore and adopt regulatory strategies to respond to more medium or longer term risks.

4.5 How we assess governance risk

Good governance underpins the delivery of good financial health and good services. Our regulatory framework describes governance as the arrangements for the leadership, strategic direction and control of an RSL.

We assess governance because we know that an RSL with poor governance can experience problems with achieving good tenant outcomes, and put at risk the viability of the organisation, stakeholders' confidence and the good reputation of the sector.

We assess governance against our Regulatory Standards of Governance and Financial Management. In doing so, we consider whether the governing body:

- delivers good tenant outcomes;
- demonstrates strong and effective leadership;
- manages and mitigates risk sensibly;
- is open and accountable; and
- maintains ethical standards

We use information from a range of sources (as set out in section 4.1) as this information can evidence that governance is working effectively or raise potential issues of concern.

Where we have identified concerns we will also consider what action (if any) the RSL has taken to address them and how effective this was. This helps us to decide the level of risk and whether we need to engage with the RSL about governance.

5 Our regulatory engagement

We use our risk assessment process to decide on which RSLs we will engage with and what level of engagement we will have with them. The level of engagement we will have with individual RSLs depends on the assurance we need that they are effectively addressing the risks we identified to tenants and service users' interests.

Our levels of engagement

Low	Where we generally have sufficient assurance about the level of risk to our statutory objective and need little if any additional contact unless other events arise.
Medium	Where we need further assurance about the level of risk to our statutory objective than we can get from the standard information returns.
High	Where we need more intensive or continuous engagement to understand the current and potential areas of risk to our statutory objective and the RSL's approach to managing these risks.

Medium or high engagement

If we decide to have Medium or high engagement with an RSL it does not necessarily mean that it has poor performance, poor governance or shortcomings in financial management. Sometimes we need to have a higher level of engagement because an RSL is newly registered or has decided to follow a particular business strategy, for example where an RSL's stock expands through stock transfer or it decides to enlarge its group. And we will always have medium or high engagement with an RSL which we consider to be of systemic importance.

We will have medium or high engagement if we need:

- greater assurance about the risk to tenants and service users than we can get through our analysis of the information landlords send us ;
- the RSL to take action to tackle a particular issue; or
- to use our statutory intervention powers to protect the interests of tenants and service users.

Regulation Plans

We publish regulation plans for all RSLs that we have medium or high engagement with. Our regulation plans set out the reasons for our engagement and the nature of that engagement and are available on our [website](#).

Where our risk assessment identifies that we need medium or high engagement with an RSL we will discuss this with the RSL before we actually publish the regulation plan. We will set out the reasons for our engagement and give the RSL the opportunity to clarify any points of factual accuracy.

Where an RSL has registered subsidiaries we publish a single regulation plan which sets out the engagement that we are planning for each of the different registered parts of the group. This approach emphasises the important role of the parent within a group structure and it also facilitates more effective understanding of the risks facing complex group structures.

What is systemic importance?

There are certain characteristics – stock size, turnover, size of debt, complex financial instruments, number of lenders and location – that would increase the risk to the interests of tenants and others if the RSL were to experience financial difficulty. We refer to these RSLs as being of ‘systemic importance’.

We need to have a clear understanding of their business plans so that we can act swiftly if we need to help protect the interests of tenants and service users. Our engagement with RSLs of systemic importance will be medium, and may be high where there are factors that can increase risk such as a diversified business strategy or planned growth.

We know from our experience facilitating a rescue of an RSL in financial difficulty that this detailed knowledge about an RSL and its business model can be a key factor in achieving an effective resolution.

We review the thresholds at which an RSL becomes systemically important each year.

Will the level of engagement stay the same?

We use our annual risk assessment to decide how we will engage with individual RSLs from the start of each financial year. If during the year, there are changes that could pose a risk to the interests of tenants and service users or new information becomes available, we may need to change our level of engagement. If we need to do this, we will bring this to the attention of the RSL and publish a revised regulation plan or, if necessary, a new regulation plan.

We may also reduce the level of engagement that we have with an RSL during the year if we receive sufficient assurance that it has taken effective measures to address the risks we identified.

6 More information

You can find more information about how we regulate in our Regulatory Framework Regulation in social housing in Scotland or contact us at the details below.

Contact us

Write to us: Scottish Housing Regulator
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Email us: shr@scottishhousingregulator.gsi.gov.uk

Telephone us: 0141 242 5642

Website: www.scottishhousingregulator.gov.uk

Terms we use in this document

Term	Definition
Accounting Determination	The reporting requirements that RSLs need to comply with when they prepare their financial statements.
Annual Return on the Charter (ARC)	Landlords require to collect and provide SHR with key information on their performance in achieving the Scottish Social Housing Charter through the Annual Return on the Charter
Annual risk assessment	An exercise carried out each year by SHR to assess the risk that each RSL presents to its statutory objective.
Applications for consent	RSLs require the statutory consent of SHR to dispose of its assets.
Constitutional change	RSLs require the statutory consent of SHR to any changes to their constitution, the document that sets out what the RSL can do and how it will be governed.
Group structures	A legal arrangement where more than one organisation is linked through a parent/subsidiary relationship.
Notifiable events	Events that RSLs are required to notify SHR about.
Regulatory engagement	The level of regulatory response for each RSL based on the level of assurance that SHR requires from individual RSLs.
Regulatory framework	A document which sets out how SHR will exercise its powers and duties.
Regulation plan	SHR's published plan setting out the engagement it will have with the an RSL.
Registered Social Landlords (RSLs)	A social landlord registered and regulated by the Scottish Housing Regulator
Regulatory Standards of Governance and Financial Management	The standards and guidance which RSLs must comply with to demonstrate effective governance, sound financial management and deliver good outcomes for tenants.
Scottish Social Housing Charter	The standards and outcomes set by Scottish Government which social landlords should aim to achieve.
Scottish Housing Quality Standard (SHQS)	A minimum quality standard for all of Scotland's social homes. Landlords should have achieved the standard by the end of March 2015.



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