



Regulator of  
Social Housing

# Annual Report and Accounts 2018-19

For the period 1 October 2018 to 31 March 2019

HC 11



# **Regulator of Social Housing<sup>1</sup> Annual Report and Accounts 2018/19**

**For the period 1 October 2018 to 31 March 2019**

**Presented to Parliament pursuant to sections 100C and 100D of the Housing and  
Regeneration Act 2008**

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**HC 11**

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<sup>1</sup> The Regulator of Social Housing is a non-departmental public body sponsored by the Ministry of Housing, Communities and Local Government. The objectives of the regulator are set out in the Housing and Regeneration Act 2008. The regulation function transferred from the Homes and Communities Agency to the Regulator of Social Housing on 1 October 2018, in line with the Legislative Reform (Regulator of Social Housing)(England) Order 2018.



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**RSH regulates private registered providers of social housing to promote a viable, efficient and well-governed social housing sector able to deliver homes that meet a range of needs.**

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## Foreword from the Chair

The Regulator of Social housing (RSH) left the Homes and Communities Agency (which has since adopted the name Homes England) and became a standalone organisation on 1 October 2018. This is our first report covering the six months to the end of the financial year 2018/19.

During this period, the policy and economic environment for registered providers and the consequent evolution of the social housing sector continued apace. I am proud that the RSH maintained a clear focus on our core purpose and fundamental objectives, whilst successfully transitioning to being a standalone regulator. We continued to deliver effective regulation through both our planned and reactive engagement with providers. Crucially we have also adapted our regulatory approach to meet the demands of a sector which continues to diversify, in particular, through increased consolidation and the introduction of novel business models. Our most recent analysis indicates that the sector as a whole is in a robust position to respond to changes in the wider economic environment.

Last year the results of our stakeholder survey provided us with valuable insights which we used to inform the development of our business plan. The survey also demonstrated providers' strong support for our co-regulatory approach. We have recently carried out another stakeholder survey and we will use those results to inform how we develop our future approach to regulation. We will continue to focus on achieving our strategic objectives including supporting the sector's capacity for delivering new affordable homes and anticipating potential future sector risks by maximising our use of provider data and market intelligence. We are also committed to working with the Government to implement any changes to the way in which we regulate social housing following the Social Housing Green Paper.

The Board is confident that our staff are able to meet future challenges and so continue to maintain stakeholders' confidence. We have recently carried out a review of our resources to ensure that we have the capacity to maintain that confidence as we take on a wider remit, including the regulation of local authority social housing rents. We want to attract, develop and retain the best staff, and we expect our new People Strategy to deliver on that commitment. I want to take this opportunity on behalf of the whole Board to thank our staff for their professionalism and determination.

We are ambitious for the year ahead and while we know we have much to do, I am confident that with the skills of our staff and the leadership of the Board we will continue to develop and succeed as an independent regulator.

Simon Dow  
Interim Chair

## Performance report

### Overview

This overview provides information on the Regulator of Social Housing: our main objectives and activities for the period from 1 October 2018 (the date on which we were established as a standalone organisation) to 31 March 2019; the key risks we face and our approach to them; and a summary of how we have performed during the period.

It includes a statement from the Chief Executive.

### Who we are

We are a non-departmental public body, sponsored by the Ministry of Housing, Communities and Local Government (MHCLG). On 1 October 2018, we were established as a standalone organisation, independent of the Homes and Communities Agency (HCA)<sup>2</sup>. Prior to that date the regulator's functions were carried out by the HCA's Regulation Committee, established through the Localism Act 2011, independently to the Agency's other functions.

### Our fundamental objectives

The 2008 Housing and Regeneration Act sets out our fundamental objectives and our remit for each of the objectives. We must regulate in a way that minimises interference and (so far as is possible) is proportionate, consistent, transparent and accountable. We are accountable to Parliament for the discharge of the fundamental objectives.

We have an economic objective where our remit is proactive and a consumer objective where our current remit is reactive. This means that we consider any referrals made to us, but our remit does not currently involve proactive performance monitoring. The economic objectives and consumer objectives are listed on page 11.

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<sup>2</sup> The Homes and Communities Agency has adopted the trading name Homes England

## Chief Executive's statement

We became a standalone organisation on 1 October 2018. This is therefore our first report covering the initial six-month period to 31 March 2019. In future years the Annual Report will cover a full 12-month period.

### **Delivering effective regulation**

Delivering effective regulation has remained our key focus. Further detail on how we have done so is set out in the performance section of this Annual Report. Highlights include: Our regulation has continued to support registered providers to deliver new homes by helping maintain lender confidence. We have reviewed providers' quarterly survey returns and carried out annual stability checks of their business plan and annual accounts, which all help to inform our assessment of a registered provider. Our work on In Depth Assessments (IDAs) has continued, allowing us to gain assurance about how registered providers identify and manage their risks. Over the course of the six months we have conducted 220 Stability Checks and 23 IDAs which have covered a range of different types and sizes of providers. Our findings are reflected in our published judgements, in line with our commitment to transparency.

During the period, through IDAs and reactive casework we have identified potential issues within a number of registered providers both in relation to our economic and consumer standards and have worked quickly and effectively to resolve them. We have been able to maintain the confidence of our stakeholders, identifying issues transparently by publicising when a provider's grading is under review. Our consumer regulation work continued to focus on the health and safety of tenants and on gaining assurance of improvements where we have found evidence of a breach of our standards.

In line with our priority to ensure that we are forward thinking and responsive to changes in the external operating environment, we have completed a review of our operational approach to ensure that we keep pace with emerging risks. We are implementing changes to the frequency of our IDAs for larger or more complex providers, to ensure we have sufficient assurance that those providers continue to manage their risks effectively so as not to put tenants at undue risk. We are also making better use of our data and analysis to monitor and manage sector risks.

We continue our ongoing communications with the sector on key issues. The first major publication following our shift to standalone status was our annual Sector Risk Profile<sup>3</sup>, where we set out our view of risks facing the sector. In February 2019 we also wrote to the sector outlining some of the key risks and exposures that may arise in the event of Britain leaving the European Union (EU) without a deal, reminding registered providers and their Boards of our expectations in our standards on stress testing.

The regulator's assessment is that, with appropriate preparation and effective mitigations in place, providers should be in a position to successfully manage the potential impact of leaving the EU. As ever, we continue to monitor the sector's financial position through our quarterly surveys<sup>4</sup> as well as the level and nature of risk in the operating environment, and we update our assessment of sector risk as necessary.

Our casework investigating potential issues of non-compliance has involved a number of lease-based providers of supported housing. Over the six months of this report we have worked to successfully manage the risks that have arisen in these cases but we have also raised awareness amongst key stakeholders about the issues and risks they have presented.

We recognise that the external environment that registered providers operate in is constantly evolving, as well as their own business plans and risk appetite. Looking forward, we are committed to remaining abreast of the changing risk profile of the organisations we regulate, and 2019/20 will see us moving to implement more frequent IDAs and structured engagement for some of those organisations.

## **Becoming a standalone organisation**

Our first six months since 1 October have been significant in embedding the changes that standalone status brings. I am especially pleased with how successfully the transition to a new organisation has been delivered and that our staff have embraced the change whilst continuing to deliver our core role.

Standalone status meant that the Regulation Committee of the HCA was established as the Board of the Regulator of Social Housing, ensuring that the expertise from across housing, regulatory and finance sectors established under the Committee continues to support the governance of the organisation.

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<sup>3</sup> <https://www.gov.uk/government/publications/sector-risk-profile-2018>

<sup>4</sup> <https://www.gov.uk/government/collections/quarterly-survey-of-private-registered-providers>



We have carried out a full review of our risk strategy and our strategic risk register and, in accordance with section 92L of the Housing and Regeneration Act 2008 (as amended) (HRA), we have also established an audit and risk assurance committee (ARAC).

As a new non-departmental public body (NDPB) we have continued to build on our strong existing relationship with our sponsor department, MHCLG. This includes agreeing a new Framework Document<sup>5</sup> which sets out how we will meet the expectations on us as an NDPB. Our positive working relationship is also supporting discussions with Government about the potential impact of future policy on social housing regulation and the sector as a whole.

We continue to maintain strong relationships with our stakeholders through speaking at conferences and events and through our structured programme of regular meetings with a wide range of representatives and organisations. These include national tenants' organisations, lenders, national representative bodies, local government and other regulators as well as registered providers.

Our proactive programme of stakeholder engagement will continue in the 2019/20 financial year as we look to consolidate our profile as a standalone organisation. We will undertake a further stakeholder survey<sup>6</sup> to ensure that we are taking account of the views of those we regulate and our wider stakeholders.

Our first full financial year is also set to see the outcome of the Government's consultation on the Social Housing Green Paper<sup>7</sup>, and the associated Review of Regulation<sup>8</sup>. We stand ready to work with Government to implement the conclusions of those consultations.

Fiona MacGregor  
Chief Executive

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<sup>5</sup> <https://www.gov.uk/government/publications/framework-between-rsh-and-mhclg>

<sup>6</sup> <https://www.gov.uk/government/publications/rsh-stakeholder-survey>

<sup>7</sup> <https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>

<sup>8</sup> <https://www.gov.uk/government/consultations/review-of-social-housing-regulation-call-for-evidence>

## Our economic and consumer objectives

Our **economic objectives** are:

- To ensure that providers of social housing, who are registered with us, are financially viable and properly managed and perform their functions efficiently, effectively and economically.
- To support provision of social housing sufficient to meet reasonable demands (including by encouraging and promoting private investment in social housing).
- To ensure that value for money is obtained from public investment in housing.
- To avoid imposing an unreasonable burden (directly or indirectly) on public funds.
- To guard against the misuse of public funds.

Our **consumer objectives** are:

- To support the provision of social housing that is well-managed and of appropriate quality.
- To ensure that actual or potential tenants of social housing have an appropriate degree of choice and protection.
- To ensure that tenants of social housing have the opportunity to be involved in its management and hold their landlords to account.
- To encourage registered providers to contribute to the environmental, social and economic well-being of the areas in which the housing is situated.

## Our purpose

In delivering our statutory objectives we regulate registered providers of social housing to promote a viable, efficient and well-governed social housing sector able to deliver homes that meet a range of needs.

## What we do

In regulating registered providers of social housing we carry out the following activities.

- We register and de-register providers of social housing subject to them meeting our eligibility requirements and registration criteria.
- We gather intelligence to inform our assessment of a registered provider by reviewing their submitted quarterly survey returns; carrying out annual stability checks of their business plan and annual accounts; and undertaking periodic In Depth Assessments using a risk-based approach to assess providers' financial strength, risk profile, approach to value for money and their quality of governance.
- We assess and grade, through published Regulatory Judgements, how well registered providers are managing their risks.
- We maintain a regulatory framework, including standards and codes of practice that keeps pace with the sector's risk profile and supports delivery of our statutory objectives and duties.
- We investigate cases of potential non-compliance or crystallisation of significant risks, including where we find evidence of a breach of our consumer standards following a referral, and carry out enforcement to secure solutions.
- We identify and communicate emerging trends and risks at a sector and sub-sector-level and maintain confidence of stakeholders, such as lenders.

## Strategic objectives

Following our establishment as a standalone body we have identified the following strategic objectives which will inform our Corporate Plan for the period 2019-22:

- Maintain stakeholder confidence in social housing through effective regulation of social housing
- Support the sector's capacity to further the Government's ambitions for delivering new supply and safe and affordable homes
- Implement reforms following the Social Housing Green Paper and the Review of Regulation, and other relevant new policy areas
- Promote a shared understanding of changes in the social housing sector, and horizon scan so that we can foresee any emerging risks
- Continue to develop the regulator, its framework and approach in line with the sector's risk profile.

## Corporate priorities

Our strategic objectives are supported by our existing corporate priorities which underpin our 2019/20 business plan:

- Ensure we have appropriate understanding of sector-level risks
- Deliver intelligence-led regulation
- Ensure we are forward thinking and responsive to changes in the external operating environment
- Ensure we are an efficient and effective organisation.

## Operating environment

The regulator has successfully delivered its statutory objectives and maintained the confidence of its stakeholders against a background of institutional changes and significant developments (including increased complexity and risk) in the regulated sector in recent years.

The sector itself has become more diverse, in both the size and type of registered providers that operate within it and the range of activities they undertake. There has also been an increased market focus amongst some providers, an increase in merger activity and the number of for-profit providers, as well as the rise of non-traditional business models including lease-based organisations.

The policy and economic environment for registered providers continues to change – 2018/19 was the penultimate year of the 1% rent reduction first introduced in 2016/17 and saw the confirmation from Government of rent policy from April 2020. That rent policy means that registered providers will be able to increase social housing rents in line with CPI +1% from 2020/21 to support the additional, long-term public investment in new supply announced by Government. In addition, registered providers have been adapting their business models and working practices in response to welfare reforms.

The operating environment for the regulator is also constantly evolving and we have, and will continue to apply our approach to horizon scanning, analysis and input to the policy agenda to ensure that we continue to be prepared for changes in the environment. That includes the potential impact of leaving the EU where the regulator and the sector have been monitoring key elements of preparation such as access to liquidity and stress testing of business plans should economic impacts materialise. We also continue to engage in the Green Paper on social housing which may bring change for both the regulator and the sector.

## Key risks and issues

In the section *Overview of risk management*, we have identified the five most significant strategic risks to the achievement of the regulator's objectives.

In the period to 31 March 2019, the regulator operated an effective risk management framework; no risk events materialised which threatened the achievement of our objectives.

Key areas where work was undertaken during the period to manage the most significant strategic risks include:

- Engaging intensively with a group of the lease-based providers of specialised supporting housing.
- Delivering the Maintaining Assurance Programme which included developing a more differentiated approach to regulatory engagement in recognition of the increased diversification and risk profile of the sector.
- Launching our People Strategy Programme to ensure that the regulator is able to attract, develop and retain the best staff so that we can maintain the capability to effectively regulate the social housing sector.
- Consulting with staff on proposals for a revised structure for the regulator to ensure that it remains appropriate in the context of developments in the sector's business model and the policy environment.

## How we are structured

The regulator organises its work via the teams set out below. This structure is kept under review to ensure that it is fit for purpose, and we have a good track record of flexibly deploying resources as necessary to ensure that we continue to meet our strategic objectives:

- The Regulatory Operations team is responsible for the effective regulation of registered providers in accordance with our fundamental objectives. We take a risk-based approach to regulation by seeking assurance through ongoing monitoring and engagement, annual stability checks and periodic In Depth Assessments, that private registered providers are meeting our economic standards and taking effective action where that assurance is not forthcoming.
- The Intervention and Enforcement team leads on cases of non-compliance with the regulatory standards and on consumer regulation where referrals are made, including local authority landlords who are subject to the regulator's consumer standards, but not to its economic standards.
- The Strategy team leads on Policy, Communications, Business Intelligence, Analysis, Regulatory Assurance, Registration and New Business Models.
- The Finance and Corporate Services team ensures the efficient and effective delivery of corporate functions and services to enable the regulator to function as an organisation and deliver its objectives.
- The Legal Services team leads on legal issues relating to any aspect of the regulator's activity, including requests for information and data protection issues.

## Our values

On 1 October 2018 we launched our values statement for the organisation. Our values underpin everything that we do to deliver our purpose and priorities, and drive the culture that we want to work in:

- We are professional and collaborative, showing respect and courtesy to colleagues and stakeholders.
- We embrace diversity and seek to be an inclusive and supportive organisation.
- We are confident in our ability to deliver effective and efficient regulation.
- We act with integrity to reach evidence-based decisions.
- We are agile and react positively to change.

## Going concern

Our net assets reflect the inclusion of liabilities falling due in future years which will be funded from registered provider fees, charged under Section 117 of the Housing and Regeneration Act 2008, and grant in aid from MHCLG. Registered provider fees and grant in aid have been approved for the year ending 31 March 2020, taking into account the amounts required by our liabilities falling due that year.

The Government has undertaken a one-year spending review for 2020/21 and we are waiting on grant in aid confirmation from MHCLG. The regulator has written to the sector indicating our expected 2020/21 fee requirement and plans to prescribe the fee amount during November 2019.

As there are no material uncertainties related to events or conditions that may cast significant doubt over our ability to continue as a going concern, it is appropriate to adopt a going concern basis for the preparation of our financial statements.



## Performance analysis

Our biggest achievement in the period was our ongoing delivery of effective regulation that has supported continuing confidence in the social housing sector. We maintained focus on our core purpose alongside the successful transition of the regulator to become a standalone non-departmental public body.

## Achievements

- We maintained stakeholder confidence through our regulatory activity (carrying out 220 stability checks and 23 IDAs in the six-month period covered by this Annual Report – in line with our intention that each provider with over 1,000 homes would receive an IDA at least once every four years, and publishing 185 Regulatory Judgements and six Regulatory Notices).
- Our ongoing regulation has been delivered alongside some significant reactive casework where we have dealt with material non-compliance across our Governance, Financial Viability and consumer standards.
- We published a number of guidance documents and analytical reports, including an updated version of Regulating the Standards<sup>9</sup>, Statistical Data Return analysis<sup>10</sup>, and our Sector Risk Profile<sup>11</sup>.
- We have further developed our approach to risk and assurance to ensure we meet our fundamental objectives.
- We have raised awareness of risks facing the sector, our new standalone status and key aspects of our operational approach through a number of speaking engagements, ongoing communication with the sector, and updated website<sup>12</sup>, increasing our social media presence and positive press coverage.

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<sup>9</sup> <https://www.gov.uk/government/publications/regulating-the-standards>

<sup>10</sup> <https://www.gov.uk/government/collections/statistical-data-return-statistical-releases>

<sup>11</sup> <https://www.gov.uk/government/collections/sector-risk-profiles>

<sup>12</sup> <https://www.gov.uk/rsh>

## Performance measurement

Our business plan sets out activities linked to a set of deliverables designed to ensure that we achieve our key four priorities. We track our performance against business plan targets and a suite of corporate health indicators. Our Regulation Executive Group receives monthly performance reports and our Board receives quarterly reports. We also report against key deliverables and corporate health targets to MHCLG.

By monitoring performance against business plan targets and the suite of corporate health indicators we gain assurance that key activities are being delivered to manage the risks that we face. This includes core activities such as monitoring progress in delivering the objective of undertaking an IDA of all providers with over 1,000 homes over a four-year period. Our approach is risk-based, and we monitor progress over the period overall.

The table below sets out the corporate health indicators which we monitor and how they are delivered. The year 2019/20 will be the first full year of the regulator operating as a standalone body; performance against business plan targets adopted for that year will be reported in the next Annual Report.

Category	Measure	How measured	Target
<b>Governance</b>	Number of Board meetings held	Number of meetings held each (financial) year	10 meetings per annum
	% Board member attendance at Board meetings held	Board member attendance recorded in minutes	90%
<b>Operational</b>	Complete annual stability checks for all large providers	Number of stability check outcomes concluded and gradings confirmed or revised	100%
	Analyse and publish four quarterly surveys (QS)	Publication of QS within 8 weeks of quarter end	100%
	Publish the Global Accounts, Sector Risk Profile and Consumer Regulation Review	Publication of each document	100%
	Deliver a planned programme of IDAs to ensure we meet our risk appetite	Regulatory operations reports to Board	100%

<b>Financial</b>	% budget spend variance	% budget spend variance in financial statements	Budget spend 95-100%
	Annual fee invoices issued by target date	Date fee invoices issued	Fees invoices issued by first week in March
	% of annual fees receivable actually received	% of annual fees receivable actually received	99.9%
	Unqualified audit report signed off on financial statements	Measured by NAO sign off	
<b>People</b>	% of staff vacancies	% of staff vacancies	10%
	% of staff turnover	% of staff turnover	10%
	% of staff sickness	% of staff sickness	2%
	% staff engagement score from staff survey	% staff engagement score from staff survey	65%
	% staff satisfaction with learning and development events attended	% staff satisfaction with learning and development events attended	95% "good" or higher
<b>External perspective</b>	% of stakeholder survey respondents who agree we are meeting our objectives	% of stakeholder survey respondents who agree we are meeting our objectives	80%
	% of stakeholder survey respondents who find our publications useful	% of stakeholder survey respondents who find our publications useful	80%
	% of stakeholder survey respondents who agree we take action to ensure confidence in the sector is maintained	% of stakeholder survey respondents who agree we take action to ensure confidence in the sector is maintained	80%

## Delivery of our priorities

### Priority 1: Ensure we have appropriate understanding of sector-level risks

It is important that we understand the risks facing the sector in order to promote a viable, efficient and well-governed social housing sector. We have:

- continued to gather intelligence and analyse risk at a sector and sub-sector-level to inform our assessment of a registered provider through a programme of sector risk and thematic analysis.
- continued with our collection and analysis of quarterly surveys, financial returns and the statistical data return, all of which were published within agreed timescales.
- published the Global Accounts <sup>13</sup>and Sector Risk Profile within agreed timescales.
- engaged with a diverse range of stakeholders through a programme of speaking engagements.
- run a regular programme of bilaterals and sounding board meetings to promote open communication and early identification of issues across the sector.
- developed our digital presence by updating our website on Gov.uk<sup>14</sup>, through our social media channels (Twitter<sup>15</sup> and LinkedIn<sup>16</sup>), to help us promote understanding of sector-level risks and awareness of our regulatory interventions.
- reviewed our press coverage to gauge the external perception of the effectiveness of our regulation.

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<sup>13</sup> <https://www.gov.uk/government/collections/global-accounts-of-housing-providers>

<sup>14</sup> <https://www.gov.uk/rsh>

<sup>15</sup> <https://twitter.com/rshengland>

<sup>16</sup> <https://www.linkedin.com/company/regulator-of-social-housing/>

## Priority 2: Deliver intelligence-led regulation

We ensure that we continue to carry out effective regulation to meet our fundamental objectives through the collection of intelligence and analysis.

In the six-month period from 1 October 2018, we have:

- delivered a robust programme of IDAs and stability checks resulting in the publication of Regulatory Judgements, which reflect the degree of assurance against the Governance and Financial Viability standards. We undertook 23 IDAs and remain on schedule to fulfil our commitment to complete IDAs for all providers holding more than 1,000 units of social housing by the end of September 2019. We also completed our annual stability check for all large providers in the period. The delivery of the programme is monitored through monthly updates to both the Regulation Executive Group and Board.
- reviewed and signed off 100% of Quarterly Surveys or referred to our reactive engagement processes.
- placed four providers' gradings under review leading to Regulatory Judgements or notices:
  - Bespoke Supportive Tenancies Limited (25 January 2019)
  - Encircle Housing Limited (6 November 2018)
  - Ongo Homes Limited (19 December 2018)
  - Westmoreland Supported Housing Limited (9 October 2018).
- published:
  - 36 Narrative Regulatory Judgements (as a result of a stability check, reactive engagement or an IDA) – five of those judgements were non-compliant on Governance, three of which were also non-compliant on Viability.
  - eight Interim Regulatory Judgements (as a result of merger activity)
  - 141 Strapline Regulatory Judgements (as a result of a stability check or an IDA)
  - six Regulatory Notices (as a result of reactive engagement).
- carried out proportionate, effective and timely reactive engagement with small, profit-making and novel providers through the analysis of regulatory returns or notifications.

- handled referrals relating to the consumer standards:
  - dealt with 120 stage 1 referrals within target time (five working days)
  - reviewed 50 stage 2 referrals – service standards applied to 29 cases, of which 22 (76%) were resolved within target time of 15 days
  - investigated 65 cases for stage 3 – Service standards applied to 22 cases, of which all were resolved, or a holding letter sent in complex cases, within the target time of 35 days.

Where consumer standard referrals did not meet the service standards, this can be as a result of a range of reasons: because we were carrying out detailed initial enquiries, for example to seek further information from the complainant or registered provider; or because the complexity of the case might require input from other operational teams, or because we were awaiting the outcome of an external investigation. On occasions where this may take longer than the 15 working day target we always seek to keep complainants updated as we consider their referral<sup>17</sup>.

- completed 45 economic standard referrals<sup>18</sup>, responding to 26 of these cases within target time, which were considered as not providing evidence of a potential breach of standards. The remaining 19 cases were referred to our Regulatory Operations team to consider.
- In relation to registration performance:
  - we have received 43 new registration applications and assessed 97% of the preliminary applications within our published 15-day target time. We also received and assessed nine detailed applications. During the period we had around 100 applications in progress.
  - we have registered new providers and restructured bodies and deregistered existing providers, ensuring that the register is maintained effectively in line with statute.
  - we have reviewed and simplified our de-registration policy and procedures.

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<sup>17</sup> At Stage 1 we consider whether the referrals are within the regulator's remit. Where referrals are within the remit we conduct a more detailed review at Stage 2 to consider whether the issues raised might represent a breach of our standards and serious detriment. At Stage 3, we carry out a more detailed investigation to determine whether there has been a breach of our standards and serious detriment.

<sup>18</sup> See <https://www.gov.uk/government/publications/regulating-the-standards> for more detail on economic standard referrals

### Priority 3: Ensure we are forward thinking and responsive to changes in the external operating environment

To continue delivering effective regulation we need to be forward thinking and able to adapt to changes in the operating environment. This includes the impact of Government policy, housing market changes, changes in registered providers' operating models and priorities. We have:

- maintained the regulatory framework to ensure it remains fit for purpose in the evolving operational environment and developed our regulatory standards<sup>19</sup>. In March 2019, we updated and published Regulating the Standards, which sets out our regulatory approach.
- further improved our risk management and horizon scanning approaches and redeveloped our Risk and Assurance Strategy to align with our standalone status. We have also redesigned our methodology to evaluate emerging trends in the operational environment to maintain levels of assurance across key risk indicators.
- continued to work closely with MHCLG on the implementation of the new rent direction for social housing rents from 2020<sup>20</sup> onwards, including introducing rent regulation for local authorities.
- worked with MHCLG on the development of options in response to the Social Housing Green Paper.
- started work on delivering an expanded data and analysis capacity to enable a more detailed understanding of current and future risk exposures.
- continued to develop our approach to provider engagement, ensuring that our activity is flexible and tailored to the risk exposures of individual providers.
- updated our contingency plans in the event of major and/or systemic failures and continued to keep our approach to resolving cases of financial stress and intervention under review.
- made preparations for the introduction of the Housing Administration regime<sup>21</sup>.

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<sup>19</sup> <https://www.gov.uk/guidance/regulatory-standards>

<sup>20</sup> <https://www.gov.uk/government/publications/direction-on-the-rent-standard-from-1-april-2020>

<sup>21</sup> <http://www.legislation.gov.uk/uksi/2018/719/made>

## Priority 4: Ensure we are an efficient and effective organisation

The successful transition of the regulator to a standalone non-departmental public body as required by legislation has been achieved without deflecting focus from our core purpose. Following this, we have carried out a full and comprehensive review to appropriately brigade our resources and ensure that we have the capacity and capability to continue delivering effective regulation. During this period of significant change we have:

- implemented new governance arrangements to ensure we could operate effectively from day one. This entailed incorporating our new governance framework; agreeing our Framework Document with MHCLG, establishing the former Regulation Committee as the Board and sub-committees of the regulator, agreeing Terms of Reference and Standing Orders, adopting new policies, and implementing new procedures and a decision-making framework.
- ensured the continued provision of IT and improved our IT systems with further investment planned in core systems.
- delivered our role whilst capping fee increases at no more than 1% p.a. Fee invoices for 2019/20 were issued on 4 and 5 March 2019, as planned.
- monitored a range of corporate health indicators on a quarterly basis which overall show good performance. Our turnover is 8% for 2018/19 and our sickness levels are well below public sector benchmarks at 1.25 days per head over the six-month period.
- responded to 1,348 general enquires; 99.9% of these were responded to within service standards.
- received complaints about the regulator:
  - One Stage 1 complaint in the previous period which was not upheld and closed in this period.
  - One Stage 1 complaint about our service in this period, which was partially upheld and closed within target time.
- received four Stage 2 complaints; of which three cases were closed within target time, and one was sent a holding response, with a final response being sent by the revised deadline.



- received requests for information:
  - Between October and December 2018, we received 13 requests for information; 11 Freedom of Information requests (FOIs) and two Subject Access Requests (SARs). Eleven were finalised within target time, leaving two cases to be finalised within the time limit in the final quarter of 2018/19.
  - Between January and March 2019, we received 13 requests for information; 12 FOIs and one SAR. Twelve cases received a response in the quarter (including two from quarter 3), all within the 20 working days service standard, leaving three cases to be finalised within the time limit in the first quarter of 2019/20.

## Financial performance

The regulator's financial performance for the six months to 31 March 2019 is set out in the financial statements starting on page 63. The cost of regulatory activities which relate to all providers was funded by annual fees. The cost of work relating to successful registration applications was funded by initial registration fees. The cost of non-routine regulation including casework undertaken by the Investigation and Enforcement team, consumer regulation and any registration costs not covered by initial registration fees was funded from grant in aid by our sponsoring department MHCLG.

The regulator's expenditure for the period was within budget. As explained in the section below on Fees and charges, an amount of £2.170m of fee income from 2018/19 is repayable to large providers.

There was significant movement on pension balances between 1 October 2018 and 31 March 2019. The net surplus on the Homes and Communities Agency Pension Scheme reduced from £654k to £364k, whilst the net deficit on the Local Government Pension Scheme increased from £3.605m to £5.834m. Pension valuations, which are performed in accordance with IAS 19, fluctuate as they are sensitive to changes in the underlying actuarial assumptions. The assumptions used in calculating future contribution rates are set by the scheme actuaries targeting a fully funded position.

### Anti-corruption and anti-bribery measures

We are committed to the effective management and application of public funds in accordance with Managing Public Money carried out in the spirit of, as well as to the letter of, the law, namely in the public interest, to high ethical standards and achieving value for money. We also endorse the seven Principles of Public Life – the Nolan Principles – of Selflessness, Integrity, Objectivity, Accountability; Openness; Honesty and Leadership.

The regulator supports the Government's key objectives to mitigate the risk of financial crime, including fraud, bribery and corruption, and fully supports the Government's objectives to eradicate modern slavery and human trafficking. We have adopted an Anti-Fraud Policy and Fraud Response Plan. During the period to 31 March 2019, no incidents of fraud or material error were identified.

## Human rights

The regulator takes the well-being of its staff very seriously. We have a range of practices and policies in place to protect the human rights of our staff, including policies on respect at work, raising grievances and whistleblowing. We have a range of diversity initiatives in place to prevent discrimination, and we work constructively with our recognised trade unions.

## Sustainability

Our carbon emissions for the period were 23.7 tonnes of carbon dioxide equivalent (CO<sub>2</sub>e). The largest source is rail travel which accounts for 20.1 tonnes of CO<sub>2</sub>e (85% of the total). We do not have any direct (scope 1) or indirect (scope 2) emissions.

We operate out of five locations across England and our activities require travel to registered providers. We use video conferencing to reduce travel and encourage the use of public transport where practicable. Rail accounted for 96% of distance travelled during the reporting period.

Paper consumption per FTE is 54% below the level of our predecessor organisation reflecting the use of digital systems instead of paper across the organisation.

The regulator does not report emissions related to offices as these are multiple-occupancy government sites and are reported by the controlling government department on behalf of all occupiers.

## Sustainability performance data

### Greenhouse Gas (GHG) Emissions

		km	Tonnes CO2e
Non-financial indicators	Flights	2,684	0.4
	Car	17,307	3.2
	Rail	454,725	20.1
	Total Scope 3 (official business travel) GHG emissions	474,716	23.7
			£'000
Financial indicators	Official business travel		176

### Resources, Waste and Recycling

		A4 reams equivalent
Paper consumed	Number	474
	Reams per FTE staff	3.2
		£'000
Financial indicators	Paper procurement	2

The Performance Report has been signed on 3 October 2019

Fiona MacGregor  
Chief Executive and Accounting Officer

# Accountability Report

## Overview

The Accountability Report is included to meet key accountability requirements to Parliament. It is structured as follows:

- Corporate Governance report – explains the composition and organisation of the regulator’s governance structures and how they support the achievement of its objectives.
- Remuneration and staff report – provides detail on remuneration and staff that Parliament and other users see as key to accountability.
- Parliamentary Accountability and Audit report – brings together the key Parliamentary accountability documents.

## Corporate governance report

This report explains the composition and organisation of the Regulator of Social Housing’s governance and how they support the achievement of the organisation’s objectives. The report comprises individual sections including the Directors’ report, the Statement of Accounting Officer’s Responsibilities and the Governance Statement.

## Directors’ report

Board membership

- Simon Dow (interim Chair)
- Elizabeth Butler
- Richard Hughes
- Ceri Richards
- Paul Smee
- Fiona MacGregor (Chief Executive)

All of the current Board members have been members of the Board from 1 October 2018 when the regulator was established. Richard Moriarty served as a Board member from 1 October 2018 until 30 September 2019. No other individuals have served as Board members in the period since the regulator was established.

With the exception of the Chief Executive, the Chair and the other Board members are collectively referred to in the legislation as appointed members. The appointed members hold and vacate office in accordance with the Housing and Regeneration Act (HRA) 2008 and their terms of appointment. Appointed members are appointed for a fixed term, normally for three years in the first instance. The terms of office of Board members are due to expire on dates between 30 July 2020 and 15 April 2021.

### **Register of members' interests**

The register of members' interests is open for public inspection and can be found on the regulator's website<sup>22</sup>.

### **Personal data-related incidents**

No incidents were reported by the regulator to the Information Commissioner (ICO) during the period.

### **Auditors**

The Comptroller and Auditor General is the statutorily appointed auditor under the provisions of the Housing and Regeneration Act 2008.

The cost of work performed by the auditors for 2018/19 was £90,000.

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<sup>22</sup> <https://www.gov.uk/government/publications/register-of-interests-board-of-rsh>

## Statement of Accounting Officer's Responsibilities

Under the Housing and Regeneration Act 2008, the Secretary of State has directed the Regulator of Social Housing to prepare for each financial period's a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Regulator of Social Housing and of its income and expenditure, Statement of Financial Position and cash flows for the financial period.

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

- observe the Accounts Direction issued by the Secretary of State, 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
- prepare the accounts on a going concern basis; and
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

The MHCLG Permanent Secretary has appointed the Chief Executive as Accounting Officer of the Regulator of Social Housing. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Regulator of Social Housing's assets, are set out in *Managing Public Money* published by HM Treasury.

As the Accounting Officer, I have taken all the necessary steps to make myself aware of any relevant audit information and to establish that the Regulator of Social Housing's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

I confirm that this Annual Report and Accounts as a whole is fair, balanced and understandable. I take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.



## Governance statement

### Introduction

The Governance Statement sets out our governance, management and internal control arrangements that are in place to ensure that the regulator meets its fundamental objectives.

### Governance framework

The regulator was established as a non-Crown body corporate by section 80A of the HRA, as inserted by the Legislative Reform (Regulator of Social Housing)(England) Order 2018<sup>23</sup>. The fundamental objectives of the Regulator of Social Housing are prescribed in the HRA and are to achieve, so far as is possible, the fundamental objectives (economic and consumer) set out in section 92K, HRA (see paragraphs 2.4 & 2.5).

### Relationship with the Ministry of Housing, Communities and Local Government

To ensure the delivery of its fundamental objectives, a Framework Document<sup>24</sup> was drawn up by the regulator's sponsor department MHCLG in consultation with the regulator.

The document sets out how the regulator and MHCLG will work together in accordance with the principles of the *Partnerships between Departments and ALBs: Code of Good Practice* (issued by the Cabinet Office<sup>25</sup>) to ensure that they have an effective partnership based on trust, clarity of accountability and understanding of purpose and outcomes. This provides the regulator with the autonomy it needs to deliver its objectives effectively, and ensures that MHCLG has sufficient assurance that the regulator is performing effectively and delivering against its fundamental objectives.

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<sup>23</sup> <https://www.legislation.gov.uk/uksi/2018/1040/contents/made>

<sup>24</sup> <https://www.gov.uk/government/publications/framework-between-rsh-and-mhclg>

<sup>25</sup> <https://www.gov.uk/government/publications/partnerships-with-arms-length-bodies-code-of-good-practice>

## Role and responsibilities of the Accounting Officer

The regulator's Accounting Officer is personally responsible for safeguarding the public funds for which she has charge; for ensuring propriety, regularity, value for money in the handling of those public funds; and for the day-to-day operations and management of the regulator. In addition, the Accounting Officer should ensure that the regulator as a whole is run on the basis of the standards, in terms of governance, decision-making and financial management that are set out in Box 3.1 of Managing Public Money.

The regulator's Accounting Officer's responsibilities to Parliament include:

- signing the accounts and ensuring that proper records are kept relating to the accounts and that the accounts are properly prepared and presented in accordance with any directions issued by the Secretary of State
- preparing a Governance Statement covering corporate governance, risk management and oversight of any local responsibilities, for inclusion in the Annual Report and Accounts
- ensuring that effective procedures for handling complaints about the regulator are established in accordance with *Public Bodies: A Guide for Departments* and that information about this is publicly and easily available
- acting in accordance with the terms of the Framework Document agreed with MHCLG, *Managing Public Money* and other instructions and guidance issued from time to time by the department, the Treasury and the Cabinet Office
- giving evidence, normally with the Principal Accounting Officer (PAO), when summoned before the Public Accounts Committee (PAC) on the regulator's stewardship of public funds; and
- ensuring that the regulator operates its fee-charging regime consistent with the principles set by the Secretary of State.

The regulator's Accounting Officer is responsible to MHCLG for:

- establishing, in agreement with MHCLG, the regulator's three-year Corporate Plan, the first year of which will be its annual business plan
- providing assurance to the department that the regulator's fundamental objectives are being delivered efficiently and effectively
- demonstrating how the regulator's resources are being used to achieve those objectives, and managing its budgets effectively
- ensuring that timely and high quality forecasts and monitoring information on performance, finance and risk are provided to the department
- ensuring that the department is notified promptly if over or under spends are likely and that corrective action is taken; and
- ensuring that any significant problems whether financial or otherwise, and whether detected by internal audit or by other means, are notified to the department in a timely fashion.

## Delegations

A comprehensive scheme of internal delegations is in place that enables the day-to-day management of the regulator to be shared with the Chief Executive and Executive Directors and their staff. The scheme of delegations is kept under review and is reviewed by the Regulation Executive Group, the Accounting Officer and the Board.

## Governance structure

### Roles and responsibilities of the Board

The role of the Board is to act within the legislative framework applicable to the regulator, including the regulator's fundamental objectives and powers, and in doing so to:

- provide strategic leadership
- help ensure that the regulator acts in a way that is efficient, effective and economic
- act as an advisory body to support and challenge the Chief Executive as Accounting Officer, in particular by providing governance oversight, and supporting the Accounting Officer in discharging the obligations in Managing Public Money
- support the senior executive team in directing the business of the regulator with a view to delivering the fundamental objectives of the regulator over the short and long term
- provide a governance function at the level of strategy and oversight, as distinct from an executive management function.

The Board has its own Terms of Reference and Standing Orders<sup>26</sup>, which are available for the public to review.

### Board composition

The Board of the regulator is established by section 80B of the Housing and Regeneration Act 2008 and transitional provisions within the Legislative Reform Order. It comprises:

- the Chair appointed by the Secretary State
- between six and ten other members appointed by the Secretary of State, after consultation with the Chair; and
- the Chief Executive appointed by the Board (with the approval of the Secretary of State).

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<sup>26</sup> <https://www.gov.uk/government/organisations/regulator-of-social-housing/about/terms-of-reference>

The Chair and the other members referred to above are collectively referred to in the legislation as appointed members. The Chief Executive does not fall into the category of appointed members. The appointed members hold and vacate office in accordance with the HRA and their terms of appointment.

A full list of current Board members is detailed in our Director's report on page 30.

## **Board effectiveness**

The Board did not assess its effectiveness in the period covered by this first Annual Report. The Board assessed its effectiveness in May 2019 with the review covering the period from 1 October 2018 to May 2019. The Board identified no major areas of concern but agreed some continuing steps for improvement in respect of how they interact with each other. The Board also agreed to carry out more routine assessments of themselves to ensure that the current standard of effectiveness is maintained.

## **Board work and performance**

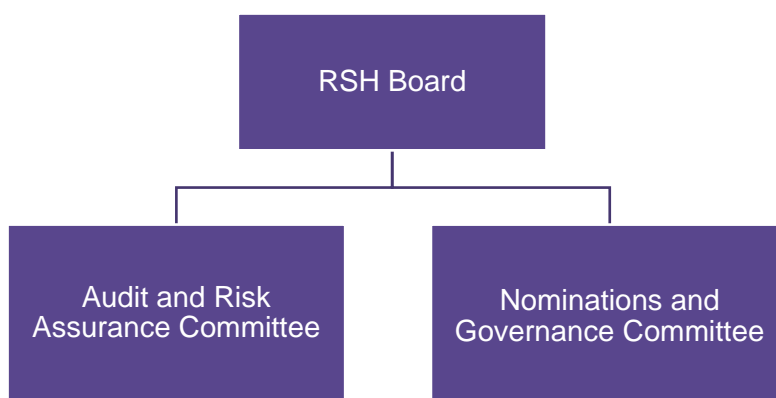
The Board receives regular reports on policy development, performance, risk management, governance, financial information and internal controls, assuring itself of the effectiveness of the regulator's internal control and risk management systems and providing assurance to MHCLG on these systems.

The Board has established and taken forward the strategic aims and objectives of the regulator consistent with its fundamental objectives and in line with the resources framework determined by the Secretary of State and the income raised through fees. Since being established, the Board has ensured that the regulator has drawn up and delivers on its corporate and business plans. The Board has had oversight of the regulator's annual budget for approval by MHCLG in relation to grant in aid.

At its first meeting, the Board approved overall governance arrangements for the regulator.

The Board, in accordance with good practice of governance, had established sub-committees to which it delegates appropriate responsibilities. This is reflected in the following structure chart.

Board structure chart



## Audit and Risk Assurance Committee

The role of the ARAC is to provide independent support and advice to the regulator's Board and Accounting Officer in relation to financial stewardship, financial and narrative reporting and audit, internal controls, and management of key financial and other risks and opportunities. The Committee receives reports on the regulator's strategic risk register, assurance on the management of specific risks, the financial statements, internal audit and external audit.

Members of the Committee are:

- Elizabeth Butler (Chair)
- Ceri Richards
- Richard Hughes

All of the current ARAC members have been members of the Committee from 1 October 2018 when the regulator was established. No other individuals have served as members of ARAC in the period since the regulator was established.

The Committee has its own Terms of Reference and Standing Orders which are available for the public to review<sup>27</sup>.

Meetings are also attended by the representatives of the National Audit Office and MHCLG. The ARAC will report on its annual self-assessment in October 2019, following a full year of being in operation.

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<sup>27</sup> <https://www.gov.uk/government/publications/audit-and-risk-assurance-committee>

## Nominations and Governance Committee

The role of the Nominations and Governance Committee (NGC) is to provide independent support to the regulator's Board and Accounting Officer by providing scrutiny, oversight and advice in relation to plans for orderly succession of appointments to the Board and of senior management, incentives and rewards for executive Board members and senior officials; and the regulator's governance arrangements.

Members of the Committee are:

- Simon Dow (Chair)
- Paul Smee

All of the current NGC members have been members of the Committee from 1 October 2018 when the regulator was established. Richard Moriarty served as a Board member from 1 October 2018 until 30 September 2019. No other individuals have served as members of NGC in the period since the regulator was established.

The Committee has its own Terms of Reference and Standing Orders which are available for the public to review<sup>28</sup>.

This Committee has not had a meeting during the period covered by this report, but will meet at least once before completion of its first full year, as required by its Terms of Reference and Standing Orders.

## Board and Committee attendance

The table below sets out the attendance at Board and ARAC for the period, followed (in brackets) by the number of times the Board or ARAC met during that member's tenure.

	<b>Board</b>	<b>ARAC</b>
Simon Dow	6 (6)	N/A
Richard Moriarty	5 (6)	N/A
Ceri Richards	5 (6)	2 (2)
Elizabeth Butler	6 (6)	2 (2)
Richard Hughes	6 (6)	2 (2)
Paul Smee	5 (6)	N/A
Fiona MacGregor	6 (6)	N/A

<sup>28</sup> <https://www.gov.uk/government/publications/nominations-and-governance-committee>

## Executive decision-making groups

### Regulation Executive Group

REG is the principal group for the regulator, below Board level, for implementing strategies, operational policies and procedures. REG is not a formal committee of the Board and has no formal decision-making power. Individual members of REG hold formal delegations from the Board of the regulator, but there can be no formal delegations to the Executive Group as an entity.

REG comprises the following executive officers (at 31 March 2019):

- The Chief Executive (who is also the regulator's Accounting Officer and a member of the Board)
- Deputy Director Strategy and Performance
- Deputy Director Finance and Corporate Services
- Deputy Director Provider Engagement
- Senior Assistant Director Investigation and Enforcement.

The regulator's Head of Legal Services and Company Secretariat attends meetings of the Executive Group on a regular basis and provides legal advice as appropriate on the matters being considered. Other officers may be invited to attend all or part of any meeting as and when appropriate.

The purpose of REG is to:

- support the Chief Executive in his/her role as the regulator's Accounting Officer;
- support the exercise of formal decision-making powers by individual executive officers; and
- provide a leadership forum in which the regulator's senior executive officers can discuss and plan the strategic direction and management of the regulator within the parameters set by the Board and the legislative framework.



## Overview of risk management

The regulator has a Risk and Assurance Strategy which aims to ensure that risks to the regulator are identified and managed effectively. Effective risk management is fundamental to providing assurance to the Accounting Officer and the Board that the regulatory framework and approach, along with how the organisation is run as a corporate entity, meets our strategic objectives.

The regulator considers strategic risks to be uncertain events that, should they occur, will adversely impact on our ability to deliver the strategic objectives set out in our Corporate Plan and thereby to meet our fundamental objectives. Strategic risks are classified in the following categories – policy; reputational; organisational capacity; and corporate and compliance.

Strategic risks are reviewed regularly by officers through the Risk Review Group; quarterly by Regulation Executive Group and ARAC; and twice per annum by Board.

Each strategic risk on the register has a number of relevant controls which support the management of the risk. To provide assurance on the operation of controls, assurance sources are mapped to each control. The regulator has adopted a ‘three lines of defence’ model to provide a framework for the various sources of assurance.

The most significant strategic risks to the achievement of the regulator’s objectives are set out in the table below.

	<b>Risks to delivery of the corporate plan</b>	<b>Mitigations</b>
1.	Multiple viability failures occur within the social housing sector that exceed our capacity to manage the issue, and/or take appropriate remedial action that is within our powers or objectives	We will use the Quarterly Survey and Stability Checks to monitor providers’ viability on an ongoing basis. We continue to keep our contingency plans for major financial failures (including for Housing Administration) under review and work with Government on wider contingency planning for responses in the event of a housing market downturn. We will keep our resources under review to ensure we can meet our risk appetite.
2.	Stakeholder expectations of our regulation exceed what is deliverable under our existing remit such that the overall legitimacy of the regulator is undermined	We will use our publications and wider communications, supported by our stakeholder engagement programme, to raise awareness of our role and remit and so that stakeholders know about the regulatory action that we take. We will monitor stakeholder confidence in the regulator through an annual survey.

3.	<p>A change in Government policy direction of travel in housing or more widely impacts our ability to meet our fundamental economic and consumer objectives</p>	<p>We will maintain close working relationships with key stakeholders in Government. We will undertake horizon scanning and monitor changes to policies which may impact on the sector. We will use sector modelling and analysis to identify the potential impacts of new policies.</p>
4.	<p>We are not able to keep pace with changes to the structure, diversification and operating environment of the sector and public expectations within our remit, resulting in a failure</p> <ul style="list-style-type: none"> <li>• to effectively manage the regulatory framework and our operating model</li> <li>• to effectively regulate more complex housing providers and respond to new models of housing and finance of housing supply</li> </ul>	<p>We are strengthening our Regulatory Assurance Processes to ensure that we meet our risk appetite, supported by relevant analysis of provider and sector wide data.</p> <p>We will keep the Regulatory Framework and our regulatory approach under review to ensure it is fit for purpose. We will keep our resources under review to ensure we can meet our risk appetite.</p>
5.	<p>We are unable to deliver our objectives and be an effective and efficient regulator because our corporate services, systems and technologies are unfit for purpose, outdated and do not support our regulatory operating model</p>	<p>We have robust Service Level Agreements in place for our shared services which have clear escalation routes, and a schedule of review points to ensure and maintain an efficient and effective provision of service.</p> <p>We will maintain sufficient budget appropriate for the needs of the organisation, including adequate resources for our corporate centre to manage our outsourced corporate services.</p> <p>We will maintain appropriate technology and information systems suitable for the requirements of the regulator. We will ensure that we have an appropriately skilled corporate centre adequately resourced at all levels.</p>

At year end our current key risk management documentation including the Risk and Assurance Strategy and the strategic risk register was up to date.

During the period to 31 March 2019, there were no incidents of whistleblowing or of personal data breaches reported to the ICO.

## **Review of effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control has been informed by the assurances provided by members of the Regulation Executive Group and by the work of internal audit. I have also taken account of feedback received from the Comptroller and Auditor General acting in his role as external auditor.

The system of internal control designed to identify and prioritise the risks to the achievement of the organisation's objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, to manage them efficiently, effectively and economically and to ensure the safeguarding of assets. The system of internal control has been in place for the full period since the regulator became a standalone entity.

The system of internal control is designed to manage risk to an acceptable level rather than eliminate all risk of failure in order to achieve policies, aims and objectives. It can therefore, only provide reasonable and not absolute assurance on the effective management of risks.

The system of internal control is subject to ongoing review, with reports regularly being presented to ARAC, who in turn provide both regular feedback to the Board and an Annual Report and overall opinion on the system of internal control.

ARAC bases its judgement on internal risk reports, reports on the preparation of the accounts and the reports and opinions of internal audit and the Comptroller and Auditor General acting in his capacity as external auditor.

Internal audit has performed a programme of independent and objective reviews in accordance with Public Sector Internal Audit Standards and the Internal Audit Charter signed by the regulator's Accounting Officer and the Chair of ARAC. The internal audit plan and activity provides assurance over the adequacy and effectiveness of governance, risk management and control. The assurance is risk-based and reasonable, but not absolute, in its coverage.

The internal audit plan was developed in consultation with the Accounting Officer and the Chair of ARAC but is kept under close review to ensure that it remains aligned with the regulator's risk profile and assurance requirements. The outcome of internal audit work is regularly reported to the Accounting Officer and ARAC. There is a rigorous process in place to follow up the implementation of actions agreed as part of internal audit's work, and progress in that respect is reported to the Board on a quarterly basis.

Internal audit has issued two reports to date, relating to the work plan for the period to 31 March 2019, on which they have expressed an opinion. Both of these have provided substantial assurance opinion. The overall assurance provided for 2018/19 is a substantial opinion.

## **Conclusion**

Based on the content of this report, assurances received from senior management and the report from the internal auditor, as Accounting Officer I am satisfied that the appropriate governance arrangements were in place during the six months to 31 March 2019.

## Remuneration and staff report

### Remuneration policy

The Regulator of Social Housing determines remuneration levels with reference to independently assessed pay grades for roles dependent on their level of responsibility and the skills and experience they require.

The remuneration policy includes a relatively small element of performance-related pay for all members of staff, including the Chief Executive and Key Managers, which is linked to the achievement of agreed annual performance objectives. Board members are not eligible to receive performance-related pay.

The Regulator of Social Housing implements the annual pay remit which is approved by the Secretary of State. The Nominations and Governance Committee provides independent support to the regulator's Board and Accounting Officer by providing scrutiny, oversight and advice in relation to incentives and rewards for executive Board members and senior officials.

### Remuneration information

The following information provides details of the remuneration and pension interests of Board members and Key Managers in their capacity as employees of the Regulator of Social Housing for the period to 31 March 2019.

### Board Members' emoluments (subject to audit)

Board member emoluments for the six-month period 1 October 2018 to 31 March 2019 is as follows:

	2018/19 £'000	Full year equivalent £'000
<b>Chair</b>		
Simon Dow	33	65
<b>Board Members</b>		
Elizabeth Butler	6	11
Richard Hughes	6	11
Richard Moriarty	6	11
Ceri Richards	6	11
Paul Smee	6	11

## Chief Executive's emoluments (subject to audit)

The emoluments of the Chief Executive for the six-month period 1 October 2018 to 31 March 2019 is as follows:

	<b>Salary</b>	<b>Bonus</b>	<b>Benefits in kind</b>	<b>Pension benefits</b>	<b>Total</b>	<b>Full year equivalent</b>
	£'000	£'000	£	£'000	£'000	£'000
Fiona MacGregor	75-80	0-5	Nil	10	85-90	170-175

## Key Managers' emoluments (subject to audit)

The emoluments of the Regulation Executive Group (excluding the Chief Executive) for the six-month period 1 October 2018 to 31 March 2019 is as follows:

	<b>Salary</b>	<b>Bonus</b>	<b>Benefits in kind</b>	<b>Pension benefits</b>	<b>Total</b>	<b>Full year equivalent</b>
	£'000	£'000	£	£'000	£'000	£'000
Harold Brown	50-55	0-5	Nil	6	55-60	110-115
Richard Peden	50-55	Nil <sup>29</sup>	Nil	12	65-70	130-135
Jonathan Walters	60-65	0-5	Nil	10	70-75	145-150
Mick Warner	50-55	0-5	Nil	6	55-60	115-120

<sup>29</sup> Richard Peden joined the regulator on 1 November 2017. He was not eligible for the 2017/18 Performance Year bonus payment.

## Pension benefits (subject to audit)

Pension entitlements disclosure for the Regulation Executive Group between 1 October 2018 and 31 March 2019:

	Annual accrued pension at 31 March 2019 £'000	Real increase in accrued annual pension £'000	Accrued lump sum at 31 March 2019 £'000	Real increase in accrued lump sum £'000	CETV at 31 March 2019 £'000	CETV at 1 October 2018 £'000	Real increase in CETV £'000
Fiona MacGregor	45-50	0-2.5	60-65	(2.5)-0 <sup>30</sup>	898	876	11
Harold Brown	35-40	0-2.5	50-55	(2.5)-0 <sup>30</sup>	637	624	5
Richard Peden	0-5	0-2.5	0-5	0-2.5	50	32	18
Jonathan Walters	35-40	0-2.5	35-40	(2.5)-0 <sup>30</sup>	509	494	9
Mick Warner	40-45	0-2.5	55-60	(2.5)-0 <sup>30</sup>	747	732	6

The Chief Executive and Key Managers are eligible to participate in either the Homes and Communities Agency Pension Scheme or the City of Westminster Pension Fund depending on when they joined the regulator or predecessor organisations. The Chief Executive and the Key Managers, with the exception of Richard Peden, are members of the City of Westminster Pension Fund. Richard Peden is a member of the Homes and Communities Agency Pension Scheme.

## Accrued pension at 31 March 2019

The accrued pension entitlement is the pension which would be paid annually on retirement, based upon pensionable service to 31 March 2019.

<sup>30</sup> The real value of the accrued lump sum has decreased for some members as inflation has eroded the value of their lump sum during the reporting period.

## Cash equivalent transfer value 31 March 2019

The cash equivalent transfer value (CETV) is the actuarially assessed capitalised value of pension scheme benefits. It is an amount payable 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 figures shown relate to benefits that the individual has accrued as a consequence of their total membership of the pension scheme and not just the service in a senior capacity to which disclosure applies.

## Termination payments

Termination payments to Key Managers during the period 1 October 2018 to 31 March 2019 were £nil.

## Staff costs (subject to audit)

Staff costs comprise:

	<b>Permanently employed staff</b>	<b>Others</b>	<b>2018/19 Total</b>
	£'000	£'000	£'000
Wages and salaries	4,168	99	4,267
Social security costs	475	11	486
Pension costs	1,437	22	1,459
<b>Sub total</b>	<b>6,080</b>	<b>132</b>	<b>6,212</b>
Less recoveries in respect of outward secondments	(35)	-	(35)
<b>Total net costs</b>	<b>6,045</b>	<b>132</b>	<b>6,177</b>



## Staff composition (subject to audit)

The average number of staff employed by the regulator (full-time equivalents) over the course of the period is as follows:

	<b>2018/19</b>
Permanent UK staff	144
Fixed-term UK staff	4
<b>Total</b>	<b>148</b>

The number of staff (full-time equivalents) by salary pay band, using an average for the period, is as follows:

	<b>2018/19</b>
£0 - £25,000	4
£25,001 - £50,000	82
£50,001 - £75,000	43
£75,001 - £100,000	13
£100,001 - £125,000	4
£125,001 - £150,000	1
£150,001 - £175,000	1
<b>Total</b>	<b>148</b>

## Gender

The gender of Key Managers and employees as at 31 March 2019 can be analysed as follows:

	<b>2018/19</b>
Key Managers - Male	4
Key Managers - Female	1
Other employees - Male	55
Other employees - Female	92
<b>Total</b>	<b>152</b>

## **Fair pay disclosure (subject to audit)**

The regulator is required to disclose the relationship between the mid-point of the banded remuneration of its highest paid director and the median remuneration of the regulator's workforce for the period, using a position as at the end of March 2019. The annualised remuneration of the highest paid director, Fiona MacGregor, was £150,000 – £155,000. The mid-point of this band was 3.2 times the median annualised remuneration of the workforce, which was £47,382. Remuneration ranged from £11,000 to £150,000 – £155,000. Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions or the cash equivalent transfer value of pensions.

## **Exit packages (subject to audit)**

Redundancy and other departure costs during the period 1 October 2018 to 31 March 2019 were £nil.

## **Expenditure on consultancy**

During the period 1 October 2018 to 31 March 2019 the regulator incurred expenditure of £nil on consultancy, as defined by the Cabinet Office.

## **Apprenticeship levy**

During the period 1 October 2018 to 31 March 2019 the regulator incurred expenditure of £5,498 on contributions to the apprenticeship levy to support apprenticeship training and assessment for apprentices.

## **Off-payroll arrangements**

In accordance with the requirements of the FReM<sup>31</sup>, the Agency is required to publish details of their highly paid and senior off-payroll engagements. The regulator incurred £nil in respect of off-payroll engagements during the period 1 October 2018 to 31 March 2019.

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<sup>31</sup> The Government Financial Reporting Manual issued by HM Treasury

## Employee matters

### Staff policy regarding disabled persons

The Regulator of Social Housing is committed to ensuring equality of opportunity for all disabled people who work or apply to work for us. As we make clear in our job application process, we offer disabled people who apply for a post a guaranteed interview, provided they meet the minimum criteria for the post.

In the event that any employee becomes disabled whilst employed by the regulator, the HR and corporate services teams, supported by the regulator's Occupational Health provider, will make all reasonable and appropriate changes and adjustments to the workplace and working arrangements.

### Equality and diversity in employment and occupation

One of the regulator's core values is that "We embrace diversity and seek to be an inclusive and supportive organisation". In delivering our People Strategy we are developing Equalities Objectives and an Equality, Diversity and Inclusion Strategy.

The regulator has a Positive Working Group (PWG) made up of staff from all levels and areas of the organisation, which has a purpose to inspire and support a culture at the regulator that respects diversity, inclusivity and staff well-being and promotes supportive behaviours.

PWG members were instrumental in the development of the regulator's Well-being Statement and in the establishment of a First Contact Officer scheme. The scheme provides a confidential first point of contact for colleagues outside of line management arrangements to discuss any matters which they feel are impacting on their working life and which they feel unable to discuss with their line manager.

### Sickness absence

The regulator's sickness absence has been low in the first six months of its operation as a standalone organisation, with an average number of 1.25 working days lost per employee since 1 October 2018.

## Health and safety

The regulator has established a Health and Safety Committee which meets quarterly and is chaired by the Deputy Director Finance and Corporate Services. No incidents occurred during the period 1 October 2018 to 31 March 2019 which required to be reported to the Health and Safety Executive under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) 2013.

## Employee engagement and consultation

During the period 1 October 2018 to 31 March 2019 the regulator launched its People Strategy. As part of the Strategy the organisation engaged with staff in a series of meetings and workshop to develop its values.

A key element of the People Strategy is the review of the Learning and Development Strategy, including leadership and management development programmes and support for staff members to take advantage of development and career progression opportunities as they arise, for example through the provision of training in interview technique. In February 2019 the regulator consulted on high-level proposals for a revised organisational structure.

## Trade union relationships

The regulator formally recognises three trade unions – Unite, PCS and Unison – with whom it consults over pay, policies and procedures, working conditions, etc. Regular meetings take place between management and elected union representatives, called Joint Negotiation and Consultation Committee meetings, on a cycle of approximately six weeks.

As a public sector body with more than 49 full-time equivalent employees, the Agency is required to make a number of disclosures regarding Trade Union Facility Time. This information is set out in the following tables.

## Relevant union officials

<i>Number of employees who were relevant union officials during the relevant period</i>	<i>Full-time equivalent employee number</i>
6	6

## Percentage of time spent on facility time

<i>Percentage of time</i>	<i>Number of employees</i>
0%	0
1-50%	6
51-99%	0
100%	0

## Percentage of pay bill spent on facility time

<i>Total cost of facility time</i>	£18,473
<i>Total pay bill</i>	£6,212k
<i>% of total pay bill spent on facility time</i>	0.30%

## Paid trade union activities

<i>Time spent on trade union activities as a percentage of the total paid facility time hours</i>	3%
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## Parliamentary accountability and audit report

### Regularity of expenditure (subject to audit)

The regulator incurred no losses and made no special payments during the period 1 October 2018 to 31 March 2019.

### Fees and charges (subject to audit)

The Regulator of Social Housing introduced fees<sup>32</sup> from 1 October 2017 following a statutory consultation in 2016. Fee income was charged from 1 October 2017.

There are five fees principles which, following consultation, were approved by the then Secretary of State for Housing, Communities and Local Government:

- I. A one-off fixed fee should apply to all successful applications for initial registration.
- II. The annual fee payable by a registered provider should be set by reference to the number of social housing units owned by that provider.
- III. A fixed annual fee should apply to all providers owning fewer than 1,000 units.
- IV. For groups owning 1,000 social housing units or more where the parent is registered, the annual fee should be set at group level rather than for each individual entity on the register.
- V. Providers should pay the full cost of the annual fee for the year that they are on the register when they register or de-register.

The annual fee level and initial registration fees charged for 2018/19 are set out below.

- I. Registered providers with less than 1,000 social housing units: £300 flat fee per annum.
- II. Registered providers with 1,000 social housing units or greater: £4.74 per social housing unit.
- III. Initial registration fee of £2,500 charged to those who successfully register.

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<sup>32</sup> <https://www.gov.uk/government/publications/fees-for-social-housing-regulation>

Invoices for annual fees for 2018/19 were issued by the Regulator of Social Housing whilst it was still part of the Homes and Communities Agency<sup>33</sup>.

Annual fees fund those costs related to regulating all providers. Initial registration fees cover the costs of work undertaken on assessing registration applications, where the application results in a successful registration. The cost of non-routine regulation, including consumer regulation, and any registration costs not covered by initial registration fees are covered by grant in aid.

Should there be any underspend on fee-funded costs there would be a proportionate refund of the per-unit annual fee to larger providers (those with over 1,000 social housing units). Fees repayable to larger providers for 2018/19 are £2.17m. This was a result of the regulator being established as a standalone organisation on 1 October 2018, whereas it was originally anticipated that the regulator would be established before that date. Consequently, some (primarily staff) costs were not incurred in 2018/19 at the levels that were anticipated when fees were set.

	£000
Total fees invoiced for 2018/19 less amounts spent in the six months to 30 September 2018	7,812
Fees invoiced in the period ended 31 March 2019	12
Fee-funded costs for the six-month period to 31 March 2019	5,654
Fees repayable to larger providers for 2018/19	2,170
Maximum fee income for 2019/20	12,751

In 2017 the regulator introduced a Fees and Resources Advisory Panel<sup>34</sup> alongside existing stakeholder engagement arrangements, as an advisory body to the regulator.

<sup>33</sup> The HCA subsequently changed its trading name to Homes England

<sup>34</sup> <https://www.gov.uk/government/publications/fees-and-resources-advisory-panel-terms-of-reference>

## **Remote contingent liabilities (subject to audit)**

The regulator is required to disclose each of its material remote contingent liabilities, and where practical, estimate the financial effect. Within the normal course of the regulator's business it may be subject to legal challenge. If the regulator were to lose a legal case it may lead to the obligation to pay another party's legal costs and / or damages. It is not practicable to quantify such costs at the reporting date. The regulator does not have any other material remote contingent liabilities.

The Accountability Report has been signed on 3 October 2019

Fiona MacGregor  
Chief Executive and Accounting Officer



## The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

### Opinion on financial statements

I certify that I have audited the financial statements of the Regulator of Social Housing for the period ended 31 March 2019 under the Housing and Regeneration Act 2008. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Regulator of Social Housing's affairs as at 31 March 2019 and the net expenditure for the period then ended; and
- the financial statements have been properly prepared in accordance with the Housing and Regeneration Act 2008 and with the Secretary of State directions issued thereunder.

### Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Regulator of Social Housing in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK.

My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **Conclusions relating to going concern**

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Regulator of Social Housing's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

### **Responsibilities of the Chief Executive for the financial statements**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive, as Accounting Officer, is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

### **Auditor's responsibilities for the audit of the financial statements**

My responsibility is to audit, certify and report on the financial statements in accordance with the Housing and Regeneration Act 2008.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit.

I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Regulator of Social Housing internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

## **Other information**

The Accounting Officer is responsible for the other information. The other information comprises information included in the Annual Report, but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information then I am required to report that fact. I have nothing to report in this regard.

## **Opinion on other matters**

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with the Secretary of State directions made under the Housing and Regeneration Act 2008
- in the light of the knowledge and understanding of the Regulator of Social Housing and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance Report and Accountability Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

### **Report**

I have no observations to make on these financial statements.

**Gareth Davies**

**Date: 10 October 2019**

**Comptroller and Auditor General**

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

## Financial statements

### Statement of Comprehensive Net Expenditure

Period 1 October 2018 to 31 March 2019<sup>35</sup>

	Note	2018/19 £'000
<b>Operating income:</b>		
Registered provider fee income	4.1	(5,654)
Other income	4.2	(49)
		<b>(5,703)</b>
<b>Operating expenditure:</b>		
Staff costs	2	6,212
Purchase of goods and services	3	1,414
Depreciation and amortisation charges	5/6	56
		<b>7,682</b>
<b>Net operating expenditure</b>		<b>1,979</b>
Interest income		(5)
Pension net finance costs	14(d)	34
Absorption transfer	10	703
<b>Net expenditure for the period</b>		<b>2,711</b>
<b>Other comprehensive net expenditure:</b>		
Actuarial (gain)/loss from pension fund	14(e)	2,080
<b>Total comprehensive expenditure for the period</b>		<b>4,791</b>

<sup>35</sup> There are no prior period comparatives throughout the financial statements as this is the Regulator of Social Housing's first set of accounts.

## Statement of Financial Position

As at 31 March 2019

	Note	2018/19 £'000
<b>Non-current assets:</b>		
Property, plant and equipment	5	55
Intangible assets	6	203
Pension assets	14(a)	364
		<b>622</b>
<b>Current assets:</b>		
Trade and other receivables	8	98
Cash and cash equivalents	7	10,207
		<b>10,305</b>
<b>Total assets</b>		<b>10,927</b>
<b>Current liabilities:</b>		
Registered provider fee refund	4.1/9	(2,170)
Deferred income	4.1/9	(5,428)
Trade and other payables	9	(711)
		<b>(8,309)</b>
<b>Total assets less current liabilities</b>		<b>2,618</b>
<b>Non-current liabilities:</b>		
Pension liabilities	14(a)	(5,834)
<b>Assets less liabilities</b>		<b>(3,216)</b>
<b>Reserves:</b>		
Income and expenditure reserve		(5,197)
Regulation reserve		1,981
<b>Taxpayers' equity</b>		<b>(3,216)</b>

*The notes on pages 67 to 89 form part of these accounts.*

**Fiona MacGregor, Accounting Officer**  
3 October 2019

## Statement of Cash Flows

Period 1 October 2018 to 31 March 2019

	Note	2018/19 £'000
<b>Net cash inflow from operating activities</b>		<b>8,656</b>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	5	(29)
Interest received		5
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(24)</b>
<b>Cash flows from financing activities:</b>		
Grant in aid from sponsor department	SoCTE	1,575
<b>Net cash inflow from financing activities</b>		<b>1,575</b>
<b>Increase in cash and cash equivalents in the period</b>		<b>10,207</b>
Cash and cash equivalents at 1 October 2018		-
<b>Cash and cash equivalents at 31 March 2019</b>		<b>10,207</b>

Reconciliation of net operating expenditure to net cash flow from operating activities:

	Note	2018/19 £'000
Net operating expenditure	SoCNE	(1,979)
Amortisation	6	46
Depreciation	5	10
Pension costs	14(d)	1,459
Employer contributions to pension	14(f)	(1,054)
Decrease in trade and other receivables		9,998 <sup>36</sup>
Increase in trade and other payables		176
<b>Net cash inflow from operating activities</b>		<b>8,656</b>

<sup>36</sup> This includes cash yet to be drawn down from Homes England at the point of transfer as per Note 10'



## Statement of Changes in Taxpayers' Equity

Period 1 October 2018 to 31 March 2019

	Note	Income and expenditure reserve £'000	Regulation reserve £'000	Total £'000
<b>Opening</b>		-	-	-
Grant in aid from sponsor department		1,575	-	1,575
Net expenditure	SoCNE	(4,692)	1,981	(2,711)
Actuarial (loss) from pension fund		(2,080)	-	(2,080)
<b>Balance at 31 March 2019</b>		<b>(5,197)</b>	<b>1,981</b>	<b>(3,216)</b>

## Notes to the Financial statements

### 1. Accounting policies

These financial statements have been prepared under direction issued by the Secretary of State in accordance with Section 100C of the Housing and Regeneration Act 2008 and in accordance with the 2018-19 Government Financial Reporting Manual (FReM) issued by HM Treasury.

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, we have selected the policy we judge to be most appropriate to our particular circumstances for the purposes of giving a true and fair view. The particular policies adopted by the regulator are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

#### 1.01 Accounting convention

Financial statements have been prepared under the historical cost convention, modified to account for the revaluation of intangible assets (where material).

#### 1.02 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment in value, as a proxy for fair value. All assets held by the regulator have a short useful life or low individual value. Where there is an indication that individual assets may be impaired, an impairment review is conducted and assets are written down to the lower of their carrying amount and recoverable amount, in accordance with IAS 36 and FReM.

Assets are capitalised where the cost of a single asset, or a group of assets, exceeds £200. Depreciation is charged to net expenditure based on cost, less the estimated residual value of each asset, evenly over its expected useful life as follows:

- Information technology – 3 years

Assets have been transferred from Homes England at net book value. For these assets, depreciation will be charged based upon the initial acquisition date and cost, with six month's depreciation charged for the period 1 October 2018 to 31 March 2019.

### 1.03 Intangible assets

Intangible assets consist of the NROSH+ system which is used by registered providers to submit information to the regulator electronically. Assets are capitalised where the cost of an asset exceeds £200. The expected useful economic life for the NROSH+ system developments is four years. NROSH+ system developments are valued at depreciated replacement cost using inflation rates for staff costs. The current value in existing use at March 2019 was not materially different to the depreciated historic cost and thus no adjustment has been incorporated.

Where there is an indication that individual assets may be impaired, an impairment review is conducted and assets are written down to the lower of their carrying amount and recoverable amount, in accordance with IAS 36 and FReM.

Assets have been transferred from Homes England at net book value. For these assets, amortisation will be charged based upon the initial acquisition date and cost, with six month's amortisation charged for the period 1 October 2018 to 31 March 2019.

### 1.04 Registered providers' fees

Income derived from registered providers is accounted for over the period to which it relates. Any amounts received which relate to future periods is to be deferred and then released as required under IFRS 15 'Revenue from Contracts with Customers' as interpreted for the public sector within FReM. Income is designated to fund costs relating to the regulation of all registered providers and is proportionate to those costs.

Please see Note 4.1 for disclosures related to revenue from contacts with customers.

The refund due to registered providers for unspent 2018/19 fees is shown as a liability within the Statement of Financial Position.

### 1.05 Funding

The regulator's activities are part funded by grant in aid provided by MHCLG for specified types of expenditure.

Grant in aid received to finance activities and expenditure, which support the statutory and other objectives of the regulator, is treated as financing and credited to the income and expenditure reserve in full, because it is a contribution from a controlling party. The net expenditure for the period is transferred to this reserve.

Where the regulator holds surplus property transferred to it under section 167 of the Housing and Regeneration Act 2008 (and under previous legislation), the regulator may transfer such property to other non-profit registered providers in accordance with criteria determined by the regulator and made available from time to time. In general, surplus property will be used to facilitate strategies for the resolution of serious problem cases, and in some cases may take the form of direct financial assistance.

### **1.06 Pension costs**

The regulator accounts for pension costs in accordance with IAS 19 'Employee Benefits'. The regulator's employees are members of the following contributory pension schemes:

- The Homes and Communities Agency Pension Scheme
- The City of Westminster Pension Fund

Both schemes are multi-employer defined benefit schemes as described in paragraph 7 of IAS 19. Plan assets are measured at fair value, and liabilities are measured on an actuarial basis and discounted to present value. The net asset or obligation for each scheme is recognised within pension assets or liabilities, respectively, in the Statement of Financial Position. The operating and financing costs of the schemes are recognised separately in the Statement of Comprehensive Net Expenditure. Service costs are spread over the working lives of employees and financing costs are recognised in the period in which they arise. Actuarial gains and losses are recognised in full in taxpayers' equity.

### **1.07 Holiday accrual**

The regulator accounts for holiday leave in accordance with IAS 19 'Employee Benefits'. The holiday balance for employees is accrued at the end of the financial period based upon each employee's leave balance multiplied by their pay costs.

### **1.08 Value added tax**

The regulator's activities are outside the scope of value added tax (VAT). Output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of assets.

## 1.09 Cash and cash equivalents

Cash comprises amounts in bank accounts through the Government banking service.

## 1.10 Receivables

Receivables are recognised initially at fair value less provision for impairment. A provision for impairment of receivables is established when evidence supports the view that we will not be able to collect all amounts due in accordance with the original terms of the receivables. If a provider is removed from the Register of Social Housing any outstanding fees are written off.

## 1.11 Accounting Estimates

Valuation of pension scheme assets and liabilities

The value of the regulator's defined benefit pension assets and liabilities are assessed by qualified independent actuaries. In making these assessments, it is necessary for actuarial assumptions to be used which include future rates of inflation, salary growth, discount rates and mortality rates. Differences between those estimates used and the actual outcomes will be reflected in taxpayers' equity in future years.

## 1.12 Absorption Transfer

On 1 October 2018 responsibility for the regulation of social housing providers transferred from the Homes and Communities Agency (now trading as Homes England) to the Regulator of Social Housing. The FReM dictates that the net liability carrying value is recorded as a non-operating loss from the transfer of function through net expenditure with Homes England recording symmetrical entries. Note 10 of the financial statements provides detail of the balances transferred.

## 1.13 Segmental Reporting

IFRS 8 requires operating segments to be identified based on internal reports that are regularly reviewed by the Chief Executive. The regulator has one reportable operating segment under IFRS 8 and therefore does not prepare detailed segmental analysis.

## 1.14 Changes in Accounting Policy

The regulator has considered, in accordance with IAS 8, whether there have been any changes to accounting policies arising from IFRS and the FReM which have an impact on the accounts, or may have an effect on future periods.

<b>Standard</b>	<b>Date of Adoption</b>
IFRS 9 Financial instrument	1 April 2018
IFRS 15 Revenue from Contracts with Customers	1 April 2018
IFRS 16 Leases	1 April 2020

### IFRS 9

IFRS 9 produces a more principles-based approach to accounting for financial instruments, including their classification and measurement. The measurement categories for financial assets reflect the nature of the entity's business model for managing financial assets and the creation of value through the contractual cash flow characteristics of the financial asset. As the regulator's financial assets are held to collect contractual cash flows only they continue to be measured as amortised cost.

IFRS 9 introduces a model for recognising provisions based on a forward looking assessment of expected credit loss and eliminates the IAS 39 'incurred loss' model, which delayed the recognition of credit losses until there is evidence of loss event. However, because the regulator has very low credit risk, as detailed in Note 14, we have determined that this has no material impact on the classification or measurement of the regulator's financial instruments.

### IFRS 15

Income earned from regulation fees charged on social housing providers fall within scope of IFRS 15. However, income recognition criteria introduced by IFRS 15 is consistent with how Homes England previously accounted for income. Income earned from secondments is the recovery of salary costs from the organisation that staff are seconded to. It is not part of the regulator's ordinary activities and sits outside the scope of IFRS 15.

Details of the regulator's application of IFRS 15 to regulation fees are set out in Note 4.1.

## IFRS 16

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months. A lessee is required to recognise a right-of-use asset and a lease liability representing its obligation to make lease payments. As a consequence, a lessee also recognises depreciation of the right-of-use asset and interest on the lease liability, and classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 Statement of Cash Flows.

As at 31 March 2019 the regulator has a lease covering its office locations through the Homes England shared service contract. The regulator plans to enter into leases with office location owners directly during 2019/20 rather than through Homes England. It is not possible to estimate the right-of-use asset or the related liability, as at 1 April, until new lease contracts have been negotiated, however they are likely to be material.

### 1.15 Domicile status

The regulator's principle place of business is Manchester, England.

## 2. Staff costs

	<b>2018/19</b>
	£'000
<b>Total staff costs charged to net expenditure comprise:</b>	
Wages and salaries	4,267
Social security costs	486
Pension costs	1,459
<b>Total staff costs</b>	<b>6,212</b>

The regulator had one member of staff on outward secondment to Homes England. The regulator employed no agency or temporary staff during the reporting period.

Wages and salaries include £29k of non-consolidated performance-related pay paid in December 2018.

The Accountability Report includes further details including the average number of staff employed and staff numbers by pay band.

### 3. Other expenditure

	Note	2018/19 £'000
<b>Purchase of goods and services:</b>		
Corporate services: facilities		424
Corporate services: IT		372
Travel and subsistence		176
Corporate services: other		130
IT systems maintenance		104
External audit fees		90
Legal costs		38
Other		80
<b>Total goods and services</b>		<b>1,414</b>
<b>Non-cash items:</b>		
Amortisation	6	46
Depreciation	5	10
<b>Total non-cash items</b>		<b>56</b>
<b>Total</b>		<b>1,470</b>

The regulator has entered into a shared service contract with Homes England for the provision of corporate services covering facilities, IT, HR, finance and internal audit.



## 4. Income

### 4.1 Revenue from Contracts with Customers

Section 117 of the Housing and Regeneration Act 2008 allows the regulator to charge registered providers of social housing fees, provided that fee income matches expenditure and the fee is proportionate to the costs to which it relates.

Regulation fees are set annually with the sector for the period 1 April to 31 March. Regulation fees are dependent upon each provider's social housing units with large providers, classified as having 1,000 or more units, charged on a per-unit basis:

Fee	Fee Level 2018/19
Initial registration fee	£2,500
Annual registration fee for small providers	£300 flat fee
Annual registration fee for large providers	£4.74 per social housing unit

Initial registration fees are invoiced at the point of registration onto the Register of Social Housing. Annual registration fees for the period 1 April to 31 March are invoiced in advance during March each year and are due within 30 days of issue of the invoice. Small providers may pay by quarterly instalments at request.

Any unspent annual registration fee is refunded to large providers once the period's accounts have been laid before Parliament. A refund is not provided to either small providers (with fewer than 1,000 units) or in relation to the initial registration fee as regulation costs exceed the fixed fee that is charged.

#### Identification of a contract

There is no legal contract with fee-paying registered providers. However, there is deemed to be a contract in accordance with FReM adaptations of IFRS 15 that the definition of contract is expanded to include legislation set out in Section 117 of the Housing and Regeneration Act 2008.

## Identification of performance obligations

The regulator has determined performance obligations for each contract type:

<b>Contract</b>	<b>Performance obligation</b>
Initial registration fee	<ul style="list-style-type: none"><li>▪ Registration of the provider on the Register of Social Housing</li></ul>
Annual registration fee	<ul style="list-style-type: none"><li>▪ Continued registration on the Register of Social Housing</li><li>▪ Spend of fee on regulation of the social housing sector</li></ul>

## Determination of when performance obligations are satisfied

The initial registration fee performance obligation is satisfied at the point that the provider is accepted onto the Register of Social Housing.

The regulator has determined that the performance obligations for annual registration fees are satisfied provided that the registered provider is on the Register of Social Housing as at the 1 April and, as the annual registration fee is spent by the regulator on the regulation of social housing providers.

## Allocation of transaction price to performance obligations

The transaction price is the amount that will ultimately be paid by the registered provider for meeting the performance obligations.

The initial registration fees are fixed and are recognised in full at the point that a provider is registered on the Register of Social Housing.

Annual registration fees are recognised at the same rate that annual fee-funded regulation costs are incurred by the regulator, with any unspent annual fees refunded to large providers (i.e. more than 1,000 units) once the regulator's accounts for that period have been laid before Parliament.

Annual registration fees are fixed at £300 for small providers and variable (due to the refund obligation on unspent annual fees) for large providers.

## Contract income

The regulator recognised the following registered provider fee income during the period 1 October 2018 to 31 March 2019:

	<b>2018/19</b>
	£'000
Initial registration fee	10
Annual registration fee	5,644
	<b>5,654</b>

## Contract balances

Contract balances related to registered provider fees are disclosed below:

	Note	<b>1 October 2018</b>	<b>31 March 2019</b>
		£'000	£'000
Receivables, included in trade and other receivables	<b>8</b>	5	1
Deferred income	<b>9</b>	(7,812)	(5,428)
Refund liability	<b>9</b>	-	(2,170)

	<b>Receivables asset</b>	<b>2018/19 fee refund liability</b>	<b>Deferred income liability</b>
	£'000	£'000	£'000
<b>As at 1 October 2018</b>	<b>5</b>	<b>-</b>	<b>(7,812)</b>
Cash received for 2018/19 fees	(16)	-	-
Cash received for 2019/20 fees	-	-	(5,428)
Invoiced fees for 2018/19	12	-	(12)
Revenue recognised	-	-	5,654
Transfer from deferred income to refund liability	-	(2,170)	2,170
<b>As at 31 March 2019</b>	<b>1</b>	<b>(2,170)</b>	<b>(5,428)</b>

The fee refund liability relates to unspent annual registration fees for the period 1 April 2018 to 31 March 2019 which will be refunded to registered providers. The deferred income liability as at 31 March 2019 relates to annual registration fees paid in advance for the period 1 April 2019 to 31 March 2020.

## 4.2 Other income

	<b>2018/19</b>
	£'000
Secondment recharge	35
The Housing Finance Corporation Ltd director fee	7
Affordable Housing Finance Plc director fee	7
	<b>49</b>

One employee of the regulator is on secondment to Homes England for which the regulator recharges payroll costs.

One employee has been appointed director of the Housing Finance Corporation Ltd and Affordable Housing Finance Plc for which the regulator receives the director fees.

## 5. Property, plant and equipment

Property, plant and equipment consist of IT equipment. Homes England transferred IT assets with a net book value of £36k to the regulator on 1 October 2018.

	<b>IT equipment</b>	<b>Total</b>
	£'000	£'000
<b>Cost</b>		
As at 1 October 2018	36	36
Additions	29	29
<b>As at 31 March 2019</b>	<b>65</b>	<b>65</b>
<b>Depreciation</b>		
At 1 October 2018	-	-
Charged in period	10	10
<b>As at 31 March 2019</b>	<b>10</b>	<b>10</b>
Carrying value at 1 October 2018	36	36
<b>Carrying value at 31 March 2019</b>	<b>55</b>	<b>55</b>

## 6. Intangible assets

Intangible assets consist of the NROSH+ system which is used by registered providers to submit information to the regulator electronically. Homes England transferred NROSH+ assets with a net book value of £249k to the regulator on 1 October 2018.

	NROSH+ £'000	Total £'000
<b>Cost</b>		
At 1 October 2018	249	249
Additions	-	-
<b>As at 31 March 2019</b>	<b>249</b>	<b>249</b>
<b>Amortisation</b>		
At 1 October 2018	0	0
Charged in period	46	46
<b>As at 31 March 2019</b>	<b>46</b>	<b>46</b>
Carrying value at 1 October 2018	249	249
<b>Carrying value at 31 March 2019</b>	<b>203</b>	<b>203</b>

## 7. Cash and cash equivalents

The regulator's cash balances are held within the Government banking service. Homes England paid the regulator cash balances relating to the transferred functions during the reporting period.

	2018/19 £'000
Balance at 1 October 2018	-
Net change in cash and cash equivalent balances	10,207
<b>Balance at 31 March 2019</b>	<b>10,207</b>

## 8. Trade and other receivables

	<b>2018/19</b>
	£'000
<b>Amounts falling due within one year:</b>	
Prepayments	53
Trade receivables	35
Employee loans	9
Registered provider fees	1
	<b>98</b>

## 9. Trade payables and other current liabilities

	<b>2018/19</b>
	£'000
<b>Amounts falling due within one year:</b>	
Deferred income of 2019/20 registered provider fees	5,428
Refund of 2018/19 registered provider fees	2,170
Employee holiday balance	338
Accruals	345
Trade payables	28
	<b>8,309</b>

## 10. Absorption transfer

On 1 October 2018 responsibility for the regulation of social housing providers transferred from the Homes and Communities Agency (now known as Homes England) to the Regulator of Social Housing. This has been treated as an absorption transfer as directed within the FReM published by HM Treasury. The net transfer totalled £703k deficit balance as detailed below:

	£'000	£'000
<b>Non-current assets:</b>		
Intangible assets	249	
Plant, property and equipment	36	
Pension assets	654	
		939
<b>Current assets:</b>		
Trade and other receivables	53	
Cash held by Homes England	10,043	
		10,096
<b>Current liabilities:</b>		
Contract liabilities	(7,812)	
Trade and other payables	(321)	
		(8,133)
<b>Non-current liabilities:</b>		
Pension liabilities	(3,605)	
		(3,605)
<b>Transfer value</b>		<b>(703)</b>

## 11. Commitments under leases

The office rent element of the shared service contract within the Homes England shared service contract is considered an operating lease. The contract has an initial term of four years covering the period 1 October 2018 to 30 September 2022. Costs are expected to increase by inflation annually.

The minimum lease payments are as follows:

	£'000
Payable within 1 year	824
Payable later than 1 year and not later than 5 years	2,173

## 12. Other financial commitments

The regulator has entered into a shared service contract with Homes England for the provision of corporate services covering facilities, IT, HR, finance and internal audit for the period 1 October 2018 to 30 September 2022. The contract contains a break clause which can take effect no earlier than 30 September 2020.

The contract is covered by Managing Public Money principles published by HM Treasury which prevents Homes England from profiting from or subsidising the cost of services provided to the regulator. Costs of the Homes England shared service contract will be reviewed annually under the terms of the contract and are expected to be broadly consistent during the remaining 3.5 year term, dependent upon employee numbers and inflation rates.

The expected costs, excluding the office rent charges disclosed in Note 11, under the Service Level Agreement (SLA) are set out below:

	£'000
Payable within 1 year	1,036
Payable later than 1 year and not later than 5 years	2,682



### 13. Related-party transactions

The regulator is sponsored by MHCLG which provides funding through grant in aid payments. MHCLG also sponsors Homes England which provides corporate services to the regulator. The regulator had one member of staff on secondment with Homes England for which it recharges payroll costs.

#### Related-party transactions

	<b>2018/19</b>
	£'000
Expenditure: Provision of services and recharges by Homes England	1,553
Income: Seconded staff from the regulator to Homes England	35

In addition, the regulator has had a small number of transactions with other government departments and other central government bodies.

No Board member, key manager or other related parties has undertaken any material transactions with the regulator during the period.

## 14. Pensions

The regulator's employees are able to participate in one of the following contributory pension scheme depending on their employment start date:

- The Homes and Communities Agency Pension Scheme
- The City of Westminster Pension Fund

Both schemes are multi-employer defined benefit schemes as described in paragraph 7 of IAS 19 Employee Benefits. HCAPS is a final salary scheme and is the only one which remains open to new employees. The City of Westminster Pension Fund is a Local Government Pension Scheme (LGPS) which changed from a final salary to career average basis for benefits accruing from 1 April 2014. Further information on the funding arrangements for the schemes is contained within Note (k) below.

Homes England, as the principal employer of HCAPS, leads on monitoring of HCAPS and the Trustee relationship. HCAPS Trustees review the scheme's investment portfolio on a regular basis including liability hedging to match the scheme's liabilities.

The City of Westminster is the administering authority for the City of Westminster Pension Fund and it administers the LGPS on behalf of all participating employers including the regulator. The City of Westminster has delegated decisions in relation to the scheme to a Pension Fund Committee who have responsibility for all aspects of investment activity. The Pension Fund Committee agrees the investment strategy and strategic asset allocation considering the liabilities and risks of the scheme.

Valuations of the regulator's assets and liabilities in each scheme as at 31 March 2019 have been prepared in accordance with IAS 19 and the results are disclosed in Note (a) below. Note (b) below shows the key assumptions used by each of the scheme actuaries in preparing the valuations.

In December 2018 the Court of Appeal ruled against the Government in two cases: *Sergeant and others v London Fire and Emergency Planning Authority* and *McCloud and others v Ministry of Justice*. The cases related to the Firefighters' Pension Scheme and Judicial Pension Scheme. For the purposes of the LGPS, these cases are known together as 'McCloud'. The court held that transitional protections, afforded to older members when the reformed schemes were introduced constituted unlawful age discrimination.

It is expected that the rulings will result in a liability to the LGPS scheme which was reformed in 2014 with similar transitional protections to the Firefighter's and Judicial schemes. There is no impact for HCAPS which was not reformed.

The Government Actuarial Department (GAD) has estimated the financial impact of one possible remedy to be equal to 3.2% of active liabilities on a scheme-wide basis. The GAD estimated has been prepared on an 'average' member basis and is highly sensitive to the earnings growth assumption. On the basis of this scheme-wide estimate, and taking into account the age profile of the entity's membership, the impact is not expected to be significant for the regulator. On this basis no specific provision for the potential additional liabilities arising from McCloud, has been accounted for.

a. Pension assets / (liabilities)

	HCAPS £'000	LGPS £'000	Total £'000
<b>Opening Position - 1 October 2018</b>			
Fair value of employer assets	7,026	28,386	35,412
Present value of funded liabilities	(6,372)	(31,991)	(38,363)
<b>Net surplus / (deficit)</b>	<b>654</b>	<b>(3,605)</b>	<b>(2,951)</b>
<b>31 March 2019</b>			
Fair value of employer assets	8,204	29,015	37,219
Present value of funded liabilities	(7,840)	(34,849)	(42,689)
<b>Net surplus / (deficit)</b>	<b>364</b>	<b>(5,834)</b>	<b>(5,470)</b>

b. Actuarial assumptions

Financial assumptions

	31 March 2019		1 October 2018	
	HCAPS	LGPS	HCAPS	LGPS
Inflation (CPI)	2.10%	2.40%	2.10%	2.40%
Pension increases	2.20%	2.40%	2.20%	2.40%
Salary increases	3.60%	3.90%	3.60%	3.90%
Discount rate	2.40%	2.45%	2.90%	2.85%

Mortality assumptions

Based on actuarial mortality tables, the future life expectancies at 65 are summarised below:

	31 March 2019		1 October 2018	
	HCAPS	LGPS	HCAPS	LGPS
Male – retiring today	22.9	23.4	22.9	24.6
Male – retiring in 20 years	24.4	25.0	24.3	26.8
Female – retiring today	24.7	24.8	24.6	26.1
Female – retiring in 20 years	26.5	26.6	26.4	28.5

c. Fair value of employer assets

	31 March 2019			1 October 2018		
	HCAPS	LGPS	Total	HCAPS	LGPS	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Equities - quoted	2,102	21,905	24,007	1,927	21,436	23,363
Bonds - quoted	3,743	4,110	7,853	2,987	3,907	6,894
Investment funds - quoted	2,267	-	2,267	2,055	-	2,055
Property - unquoted	-	2,980	2,980	-	2,564	2,564
Cash and cash equivalents	92	20	112	57	479	536
	<b>8,204</b>	<b>29,015</b>	<b>37,219</b>	<b>7,026</b>	<b>28,386</b>	<b>35,412</b>

d. Charge to net expenditure

	HCAPS	LGPS	Total
	£'000	£'000	£'000
<b>Amounts charged to net operating expenditure</b>			
Current service costs	686	758	1,444
Past service costs	2	-	2
Expenses	7	6	13
	<b>695</b>	<b>764</b>	<b>1,459</b>
<b>Amounts charged to finance costs</b>			
Interest charged to liabilities	92	454	546
Expected return on assets	(105)	(407)	(512)
	<b>(13)</b>	<b>47</b>	<b>34</b>
<b>Recognised in Statement of Comprehensive Net Expenditure</b>	<b>682</b>	<b>811</b>	<b>1,493</b>

e. Amounts recognised in income and expenditure reserve

	HCAPS	LGPS	Total
	£'000	£'000	£'000
<b>Actuarial gains/(losses)</b>	<b>(34)</b>	<b>(2,046)</b>	<b>(2,080)</b>

## f. Reconciliation of fair value of employer assets

	<b>HCAPS</b> £'000	<b>LGPS</b> £'000	<b>Total</b> £'000
<b>Opening fair value of employer assets</b>	<b>7,026</b>	<b>28,386</b>	<b>35,412</b>
Expected return on assets	105	407	512
Contributions by member	120	181	301
Contributions by employer	426	628	1,054
Actuarial gains	629	(581)	48
Expenses	(7)	(6)	(13)
Insurance premiums for risk benefits	(1)	-	(1)
Benefits paid	(94)	-	(94)
<b>Closing fair value of employer assets</b>	<b>8,204</b>	<b>29,015</b>	<b>37,219</b>

## g. Reconciliation of defined benefit obligation

	<b>HCAPS</b> £'000	<b>LGPS</b> £'000	<b>Total</b> £'000
<b>Opening defined benefit obligation</b>	<b>6,372</b>	<b>31,991</b>	<b>38,363</b>
Current service cost	686	758	1,444
Past service costs	2	-	2
Interest costs	92	454	546
Contributions by members	120	181	301
Insurance premiums for risk benefits	(1)	-	(1)
Actuarial losses/(gains) – demographic	(77)	(1,862)	(1,939)
Actuarial losses/(gains) – financial	740	3,327	4,067
Benefits paid	(94)	-	(94)
<b>Closing defined benefit obligations</b>	<b>7,840</b>	<b>34,849</b>	<b>42,689</b>

h. Sensitivity analysis

Pension liabilities are calculated using actual estimates as shown in Note (b) above. If the major assumptions were to change the impact on the defined benefit obligation would be as follows:

<b>Adjustment to discount rate</b>	<b>+0.25%</b> £'000	<b>Current</b> £'000	<b>-0.25%</b> £'000
Present value of total obligation	40,185	42,689	45,364
Movement	(2,504)		2,675
<b>Adjustment to inflation</b>	<b>+0.25%</b> £'000	<b>Current</b> £'000	<b>-0.25%</b> £'000
Present value of total obligation	45,145	42,689	40,390
Movement	2,456		(2,299)
<b>Adjustment to life expectancy</b>	<b>+1 year</b> £'000	<b>Current</b> £'000	<b>-1 year</b> £'000
Present value of total obligation	44,042	42,689	41,371
Movement	1,353		(1,318)

i. Expected future cash flows

The expected employer pension contribution for the year to 31 March 2020 is:

	<b>HCAPS</b> £'000	<b>LGPS</b> £'000	<b>Total</b> £'000
Expected employer contribution	883	1,235	2,118

j. Maturity profile of the defined benefit obligation

The weighted average duration of the defined benefit obligation is approximately 20 years for HCAPS as a whole scheme and 26 years for the regulator's section of the LGPS.

k. Funding arrangements

Contribution rates for each scheme are reviewed at least every three years following a full actuarial valuation. The funding strategy in each case is set to target a fully funded position, subject to an acceptable degree of risk as decided by the schemes' trustees.

HCAPS is a multi-employer scheme that does not operate on a segregated basis. Therefore the assets and liabilities are not separately identified for individual participating employers. Benefit obligations are estimated using the Projected Unit Credit Method. There are no formal arrangements in place for the allocation of a deficit or surplus on the wind-up of the plan or the regulator's withdrawal from the plan. Under both scenarios, exit debts could become payable under Section 75 of the Pensions Act 1995.

Assets and liabilities for all employers in LGPS funds are identifiable on an individual employer basis. However, it should be noted that the allocation of assets to the regulator's section of the fund is notional as the assets themselves are held in respect of the City of Westminster Pension Fund. There are no minimum funding requirements or winding up provisions in the LGPS. Any deficit or surplus on withdrawal is required to be settled between the Fund and the withdrawing employer

## 15. Financial instruments and related risks

In accordance with FReM and IFRS 7, the regulator's accounts must contain disclosure material of financial instrument risk.

### **Credit risk**

The regulator is exposed to credit risk from its trade and other receivables, whereby there is a risk that counterparties will not settle outstanding amounts as they fall due. Balances are detailed within Note 8. The credit risk arising from these balances is not considered significant.

### **Market risk**

The regulator's deposits are held within the government banking service. The balances within the S167 account are interest bearing at a variable rate. The regulator is exposed to market risk through its pension schemes detailed within Note 14.

### **Liquidity risk**

The regulator receives regulation fee funding at the start of the financial year which is spent throughout the following 12-month period. In addition to this, the regulator receives monthly grant in aid funding from MHCLG in advance of need. The regulator maintains surplus funds within instant access accounts which totalled £10,207k at 31 March 2019. Liquidity risk is not considered significant.

## 16. Events after the reporting period

A registered provider filed an action against the regulator in May 2019 which the regulator expects to successfully defend. The matter is due to be heard in early 2020. If the regulator were to be unsuccessful in defending the claim, the court could require the regulator to pay the claimant's legal costs. We estimate those could be in the region of £250,000.

There have been no other significant events after the reporting period date requiring disclosure.

The Accounting Officer authorises these financial statements for issue on the date certified by the Comptroller and Auditor General.



## Accounts Direction from Ministry of Housing Communities and Local Government

### REGULATOR OF SOCIAL HOUSING

#### ACCOUNTS DIRECTION GIVEN BY THE SECRETARY OF STATE WITH THE CONSENT OF THE TREASURY, IN ACCORDANCE WITH SECTION 100C OF THE HOUSING AND REGENERATION ACT 2008.

1. The annual Financial Statements of the Regulator of Social Housing (hereafter in this accounts direction referred to as “the Regulator”) shall give a true and fair view of the income and expenditure, cash flows for the year and the state of affairs at the year end. Subject to this requirement, the Financial Statements for 2018/19 and for subsequent years shall be prepared in accordance with:

(a) the accounting and disclosure requirements given in *Managing Public Money* and in the *Government Financial Reporting Manual* issued by the Treasury (“the FReM”) as amended or augmented from time to time;

(b) any other relevant guidance that the Treasury may issue from time to time;

(c) any other specific disclosure requirements of the Secretary of State;

insofar as these requirements are appropriate to the Regulator and are in force for the year for which the Financial Statements are prepared, and except where agreed otherwise with the Secretary of State and the Treasury, in which case the exception shall be described in the notes to the Financial Statements.

2. This direction shall be reproduced as an appendix to the Financial Statements.

3. This direction replaces all previously issued directions.

Signed by authority of the Secretary of State for the Ministry for Housing, Communities and Local Government



An officer in the Ministry for Housing, Communities and Local Government

Date: 25 September 2019

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