Regulator of
Social Housing

Annual Report and Accounts 2019-20

For the period 1 April 2019 to 31 March 2020

HC 892

Regulator of Social Housing[1]
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[1] 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.

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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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Contents

Chair’s foreword

This is the Regulator of Social Housing’s second annual report which covers the twelve-month period from April 2019 to March 2020. On 1 October 2019 we marked our first anniversary as a stand-alone organisation.

The end of the period covered by this report was beginning to be dominated by the COVID-19 pandemic which presented significant challenges for both the regulator and the sector as a whole. I am pleased to report that we remained focussed on our fundamental objectives, whilst swiftly adapting our regulatory approach to meet the operational challenges and risks resulting from the pandemic. We refocussed our regulation to be able to monitor the immediate financial pressures on landlords and to support them in maintaining their key operations and in particular, safeguarding their residents and staff.

Our first full year as a standalone regulator was a successful one and we continued to deliver effective regulation through our programme of planned regulatory activities and reactive work with providers. We remained alert to the need to adapt our regulation to respond to changes and risks in the sector. As well as delivering our existing role and meeting our current objectives, we have continued to work with the Government and other stakeholders on changes to our consumer regulation role anticipated in the forthcoming Social Housing White Paper and are committed to continue doing so.

Our annual sector risk profile is a key regulatory publication, and the underlying theme of our last sector risk profile (prior to the pandemic) was that risk in the sector is growing. We highlighted the most significant risks that the sector is exposed to, including market sales exposure, which may have an even greater impact following the pandemic. We also highlighted risks which new business entrants including for-profit and lease-based providers must take account of and engaged intensively with a number of these providers during the year, intervening where providers did not meet our standards. During these uncertain times, providers’ ability to manage their risks becomes even more critical and we have regularly emphasised the value of disciplines such as comprehensive stress testing and effective mitigation strategies.

The sector has remained financially strong, key services have continued to operate, and our analysis indicates the sector is in a robust position financially to continue to weather the challenges. It is clear, however, that providers will need to continue for some time to come to focus on managing the impacts of the pandemic and any further economic shocks. We will continue to support providers through our regulatory programmes, our range of publications and our widespread sector engagement.

The Board is confident that the regulator can keep pace with the changing risk profile of the sector as it continues to diversify. To do this we continue to deliver our commitment to attract and retain the best staff capable of regulating an increasingly dynamic social housing sector. We must both ensure that we have the staff and skills that we need and at the same time seek to attract a diverse range of staff, particularly at senior level.

The staff of the regulator have worked hard over the year to meet the challenges of regulating the sector, and have moved successfully to remote working due to the pandemic. I and the Board of the regulator would like to take this opportunity to warmly thank our staff for their professionalism, flexibility and resilience during these unprecedented times.

On a personal note I also want to thank my Board colleagues, including our Chief Executive, for their unstinting efforts to ensure the good governance of the regulator and their endless patient and thoughtful advice to me in my role as Interim Chair.

We are optimistic and ambitious for the year ahead, despite the significant challenges and unparalleled uncertainty that we and the sector face. We are confident that our organisation has the capacity, skills and determination to meet those challenges and that our staff working with the Board will continue to be an effective and respected regulator.

Simon Dow
Interim Chair

Chief Executive's statement

This is our first Annual Report covering a full 12-month period as a stand-alone organisation from April 2019 – March 2020. Importantly, the end of the reporting year was marked by the COVID-19 pandemic and subsequent lockdown measures, which had a profound effect on the sector, and continues to do so for our stakeholders and the whole country. We responded quickly by making some adjustments to our regulatory approach to ensure our regulation remained appropriate and proportionate. However, some of these measures fall outside of this reporting period, so will not be covered in detail.

Delivering effective regulation

Our key focus throughout the year has remained on delivering effective regulation. We continued to ensure that registered providers are financially viable and properly managed so that lenders have confidence in providers and tenants are not put at risk. We gained up-to-date assurance that providers are identifying and managing their risks through our programme of Quarterly Surveys, annual Stability Checks and in-depth assessments (IDAs). This year we successfully completed our four-year programme of IDAs on all large providers (those with 1,000 or more social housing units). We have further developed our risk-based approach and will carry out IDAs and engage more regularly with the largest and/or more complex providers to ensure they are being managed appropriately. The high level of confidence that stakeholders have in our regulatory approach was again demonstrated in the results of our annual stakeholder survey.

Through our consumer regulation work, we addressed an increased incidence of material breaches of our consumer standards. We recognise that most providers are well-run. However, this year we found breaches of our consumer standards in our highest number of cases to date, in part driven by increased engagement with, and from, local authorities. This included our first finding of a breach of the Tenant Involvement and Empowerment Standard. We gained assurance from providers involved that improvements were being implemented. We shared our themes and learning in our annual Consumer Regulation Review and encouraged providers to take steps to improve their systems and processes.

The government has confirmed that it intends to publish a Social Housing White Paper by the end of 2020 and we anticipate some possible changes to our consumer regulation role as a result. We continued to encourage providers not to wait for the White Paper and to take steps to improve their service or engagement with tenants where they need to. We recognise and appreciate that many providers have already significantly adapted their service and engagement with tenants during the COVID-19 pandemic.

Following feedback to our call for user views on the Statistical Data Return (SDR) we made changes to the format of our SDR publications by including shorter, more visual briefing notes, technical supplements and revised data tools.

We ensured that the register of providers was maintained effectively. We continued to register new providers and met our 15-day target to assess preliminary applications in 90% of cases. To support those providers wishing to register with us we published a new guide to becoming a registered provider.

We demonstrated our understanding of sector risks and helped providers to manage these by publishing our annual Sector Risk Profile. As part of our commitment to ensuring that providers' Boards can benefit from our regulatory engagement, we set out in an addendum the common issues that are likely to increase the risk of non-compliance with rent and data quality requirements so that providers could identify and address these.

We also published an addendum on lease-based providers of specialist supported housing. Our analysis of risks in the sector identified a range of potential issues with providers using long-term leasing of social housing units. We engaged intensively with a number of these providers and published a significant number of non-compliant regulatory judgements, and made other regulatory interventions where providers did not meet our standards.

We continued to work in line with our priority to be forward thinking and responsive to changes in the external operating environment to deliver effective regulation. We successfully defended the Judicial Review challenge brought by Inclusion Housing against the non-compliant regulatory judgement we published for them. Despite this, there are always lessons to be learned and we have considered how we can further improve our approach to complex cases.

Following a Government direction, we also consulted on a new Rent Standard and published our response based on the feedback we received. This is the first time that one of our economic standards applies to local authority registered providers. We prepared to regulate local authorities by running a pilot on the Local Authority Data Return that local authority registered providers are now required to complete annually. We updated our guidance to reflect the introduction of the new Rent Standard and outlined how in future we may use regulatory notices in connection with breaches of rent requirements.

We recognise that diversification, scale and complexity is increasing within registered providers. Following legislative changes, we consulted on and made changes to our use of powers guidance on insolvency in line with our strengthened powers to manage financial failure. Our focus, however, remains on preventing organisations reaching this stage.

Following the COVID-19 lockdown we quickly adapted our regulation and wrote to registered providers setting out our new approach. Providers worked hard in the communities they serve to protect their tenants whilst keeping staff safe, and continue to do so. We made changes to reduce the regulatory burden on providers and identify challenges that the sector or individuals needed regulatory support to meet. This included pausing IDAs (which we have now successfully restarted remotely) and delaying some returns. We also set out our intentions to regularly survey providers to understand the risks arising to tenant safety and the economic impact of the virus, which we subsequently did and continue to do so.

Developing our organisation

We passed our first year as a stand-alone organisation on 1 October 2019. Our People Strategy Programme aims to ensure we are an organisation that can attract, develop and retain the best staff who will continue to do our valuable work in effectively regulating the social housing sector.

As part of this, we continued our work to drive our values and culture by launching a set of behaviours which were developed by staff to reflect and represent our values and define the kind of workplace we want to be. We also continued work to embed our behaviours and values into everything we do, and monitored these through our staff survey. I am pleased that the responses to our first staff survey were, on the whole, encouragingly positive and we compared well to both overall Public Sector and Civil Service scores. We can always do more however, and there are some areas where we are working with our staff and we will strive to improve over the coming year, including seeking to attract a wider range of diverse staff, particularly at senior level.

We value the strong relationships we have with our stakeholders and continued our speaking engagements and regular meetings with a range of representatives and organisations. This continued successfully remotely, and at greater intensity, throughout the COVID-19 pandemic. We carried out our annual stakeholder survey so registered providers and other stakeholders could share their views on our approach to regulation. We received an increase in responses this year and the results were positive overall. Most stakeholders were confident in how we deliver both our economic and consumer regulation objectives.

To ensure that we are as well placed as possible to deliver efficient and effective regulation, we carried out a resource review and revised our structure to better meet our needs. We invested in key areas, such as our front-line regulation, so that we can keep pace with the changing risk profile of the sector outlined above. We successfully attracted new recruits to work for the regulator strengthening the skills and experience that are our key asset.

Finally, we recognise that it has been and remains a very uncertain operating environment for providers. We have continued to monitor the sector's financial position and sector risks closely amidst financial uncertainty caused by exiting the European Union and the global COVID-19 pandemic, our monitoring indicates that, in aggregate, the sector remains in a robust position financially to weather the challenges. We remain committed to responding and adapting to meet the challenges of COVID-19 so that our regulation remains efficient and effective. We continue to work collaboratively with the Government and other stakeholders, and we stand ready to implement the Social Housing White Paper reforms.

Fiona MacGregor
Chief Executive

Performance report

Overview

This overview provides information on the Regulator of Social Housing:

- our main objectives and activities for the period from 1 April 2019 to 31 March 2020
- the key risks we face and our approach to them
- a summary of how we have performed during the period.

Who we are

The Regulator of Social Housing regulates 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. We are a statutorily independent regulator, existing as a non-departmental public body, sponsored by the Ministry of Housing, Communities and Local Government (MHCLG). We were established in our current form on 1 October 2018.

The Housing and Regeneration Act (HRA) 2008 sets out our fundamental objectives in relation to economic and consumer regulation, and our remit for each of the objectives. We have an economic objective in relation to the governance, financial viability and efficiency of registered providers. Our economic remit is proactive, and we actively assess the performance of registered providers. We have a consumer objective in relation to the management of social housing units. Our current consumer remit is reactive. This means that we consider information that we become aware of, including referrals made to us, but our remit does not currently involve proactive monitoring of the sector's performance. The economic and consumer objectives are detailed in full below.

Our economic remit extends to all registered providers (including local authority landlords) for the Rent Standard but only to private registered providers of social housing for the Governance and Financial Viability Standard and the Value for Money Standard. Our consumer remit extends to all registered providers including local authority landlords.

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 our fundamental objectives.

Our objectives

Our economic objective is:

- 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 objective is:

- 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 wellbeing of the areas in which the housing is situated.

Corporate priorities

In the delivery of our statutory role, we have set the following four corporate priorities:

- 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.

Our performance in delivering against these priorities during 2019/20 is described on pages 22 to 29.

Our values

On 1 October 2018 we launched our values statement. We built upon this in 2019/20 by agreeing with staff the behaviours that support them. 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

How we regulate

Our primary focus is on promoting a viable, efficient and well-governed social housing sector able to deliver homes that meet a range of needs. Our regulatory approach aligns with this by ensuring that we identify short-term viability issues, and that when we engage in depth, we have a strategic conversation with providers about their financial strength, risk profile, approach to value for money and the quality of their governance.

Mindful of our duty to minimise interference, our fundamental objective of supporting the provision of social housing and our commitment to proportionate regulation, we take a **co-regulatory approach**.

This means that:

- we regard Board members and councillors as responsible for ensuring that providers' businesses are managed effectively and that providers comply with all regulatory requirements

- providers must support tenants to shape and scrutinise service delivery and to hold Boards and councillors to account

- we operate as an assurance-based regulator, seeking assurance from providers about their compliance with the standards. In other words, the responsibility is on providers to demonstrate their compliance to us. Where providers do not supply the requisite assurance, this will be reflected in our judgements.

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 **maintain a regulatory framework**, including outcome focussed standards and codes of practice that keeps pace with the sector's risk profile and supports delivery of our statutory objectives and duties.

- We **gather intelligence** to inform our assessment of a registered provider's compliance with our standards 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 **grade our assessment of provider compliance** with our Governance and Financial Viability Standard and through published Regulatory judgements, report how well registered providers are managing their risks.

- We **investigate cases of potential non-compliance or crystallisation of significant risks**, including where we find evidence of a breach of our consumer standards and that that breach may result in actual or potential serious detriment (which we take to mean serious harm) to tenants, 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.

How we are structured

We organise our work through 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.

Team	Responsibilities
Regulatory Operations	Responsible for the effective regulation of registered providers in accordance with our fundamental objectives and is primarily responsible for undertaking the proactive regulatory activity in support of our economic objective and taking effective action where assurance of provider compliance is not forthcoming.
Investigation and Enforcement	Responsible for reactive regulation and investigation of serious cases of potential of non-compliance with the Economic and Consumer Regulatory Standards in line with our fundamental objectives.
Strategy	Responsible for the development of our regulatory framework, ensuring that it keeps pace with the sector's risk profile and supports delivery of our statutory objectives and duties. Leads on policy development, economic and financial analysis, and gathering assurance that we continue to deliver our fundamental objectives effectively.
Registration and New Business Models	Registers and de-registers providers of social housing subject to them meeting our eligibility requirements and registration criteria. Leads on our regulatory engagement with non-traditional providers of social housing.
Finance and Corporate Services	Ensures the efficient and effective delivery of corporate functions and services to enable the regulator to function as an organisation and deliver its objectives.
Legal Services	Leads on legal issues relating to any aspect of the regulator's activity, including requests for information and data protection issues.

Key risks and issues

The *Overview of risk management* section sets out how we manage risk at the regulator and how our internal controls and governance structures support effective risk management. This is critical to the effective delivery of our fundamental objectives as translated into strategic objectives, corporate priorities and, in turn, business plan targets.

We maintain a strategic risk register which supports oversight of the main risks we face as an organisation. The register considers risks that fall into one or more of the following categories:

- policy
- reputation
- organisational capacity
- corporate and compliance.

The social housing sector itself has become more diverse in recent years, 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 in the number of for-profit providers, as well as the rise of non-traditional business models including lease-based organisations.

A key risk for us is that we fail to respond adequately or promptly to changes in the sector and the wider environment in which we operate. This encompasses changes to Government policy, changes in providers' operating models and stakeholder expectations of our remit. We seek to manage this risk as far as we are able to through effective engagement and communication. This includes developing and maintaining relationships with Government and interacting with sector stakeholders through a regular programme of meetings and speaking engagements. It also encompasses the work we do on analysing sector risks and the wider operating environment which we share with the sector through corporate publications, reports and guidance, and responding to our findings through our regulatory engagement with the sector.

We are a knowledge-based organisation. Our regulation is based upon the timely and insightful analysis of intelligence and prompt and measured regulatory action. Our success is dependent on recruiting, training and retaining high quality staff; reduced staff capacity and capability is therefore one of our most critical risks. Over the last year we have been delivering our People Strategy Programme to ensure we are able to attract, develop and retain the best staff so that we can maintain the capability to effectively regulate the social housing sector. We have at the same time implemented a revised organisational structure, including increasing capacity in some teams, to ensure that it remains appropriate in the context of developments in the sector's business models and the policy environment.

In the period to 31 March 2020, we operated an effective risk management framework. Two issues materialised which threatened the achievement of our objectives, both of which we managed effectively.

- We were subject to a Judicial Review challenge from Inclusion Housing on the regulatory judgement we published for them in February 2019. We successfully defended the challenge in the High Court in February 2020. We have been looking at the lessons from this case to see if we can further improve our processes.

- In March 2020, we had to move all our operations to homeworking due to the COVID-19 pandemic. Our business continuity arrangements, supported by recent investment in our IT infrastructure and an agile organisational culture, meant we were able to do this quickly and efficiently with minimal operational disruption.

- COVID-19 response measures have had an impact on our organisation and the sector we regulate since the end of the financial year. We have continued to operate effectively whilst staff have temporarily worked from home and have adjusted our model of regulatory engagement where necessary to ensure our regulation remained appropriate and proportionate to circumstances as they have developed. This has included pausing IDAs (which we have now successfully restarted remotely) and delaying some returns. We also set out our intentions to regularly survey providers to understand the risks arising to tenant safety and the economic impact of the virus, which we subsequently did and continue to do so.

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 HRA 2008, and grant-in-aid from MHCLG. Registered provider fees and grant-in-aid have been approved for the year ending 31 March 2021, taking into account the amounts required by our liabilities falling due that year.

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 summary

Overall, our performance has been strong in our first full year of operation as a standalone organisation.

Our focus remains our ongoing delivery of effective regulation that supports continuing confidence in the social housing sector. As part of this we have continued with our model of planned regulatory engagement, which is set out in Regulating the Standards[2]. In October 2016 (when we were an independent directorate within the Homes and Communities Agency) we launched a programme of In depth assessments (IDAs) with a goal to complete reviews of all private registered providers within four years. We completed this programme on schedule during 2019/20 with many providers having already received a second IDA. We successfully moved to an approach of differentiated engagement to enable us to focus more of our regulatory time on the higher risk organisations and those whose failure would have the most impact on the sector.

Where appropriate we took robust and prompt regulatory action. This included downgrading our published regulatory assessments of providers and using our wider enforcement powers such as making statutory appointments to the Boards of failing providers. We continue to work closely with providers who need to take action to ensure continued compliance with our standards or to return them to compliance.

Our regulatory approach in one case was challenged via a Judicial Review brought by Inclusion Housing against a regulatory judgement we published for them in February 2019. The Judge dismissed all substantive grounds of challenge by Inclusion Housing. However, there are always lessons to be learnt and we are reviewing this case to further improve our approach.

We saw significant levels of registration activity in 2019/20 with over 100 applications from organisations interested in joining the sector. To support the work of the registrations team we published a new guide entitled “Becoming a registered provider”[3]. This is aimed at providers of social housing who are considering applying to register with us and for organisations that advise potential applicants. The high level of activity and the complexity of some of the applications did result at times in delays in processing applications however we have increased our resources to address this.

We published documents to support our wider regulatory work including the new 2020 Rent Standard and an associated addendum to the Sector Risk Profile. We also consulted on and updated our approach to intervention, enforcement and use of powers.

[2] https://www.gov.uk/government/publications/regulating-the-standards

[3] https://www.gov.uk/guidance/register-and-de-register-as-a-provider-of-social-housing

We carried out a review of the resources needed to effectively deliver our role, to ensure that we remained fit for purpose and as we learnt from the first year of being a standalone organisation. As a result we invested in supporting front-line regulation and corporate resilience, particularly in our legal team. As we are a primarily fee-funded organisation we sought and obtained sector support for the increase in fees necessary to expand our role. We started recruiting to the expanded organisation in the latter half of the year and successfully filled the roles advertised. Due to the impact of lockdown in March 2020, we were forced to reduce recruitment activity for a period, but we expect to substantively complete recruitment in 2020/21.

In 2019, we completed our first staff survey as a standalone organisation. Our results were strong with ratings at or above the relevant public sector and Civil Service benchmarks. The survey has helped us to identify some areas where we would like to improve our performance and we commissioned follow up work to help us better understand these. We continue to work with our staff to implement actions coming out of this work, including seeking to improve our diversity at senior level.

Whilst our size does not require it, we voluntarily published our first Gender Pay Gap report in relation to 31 March 2019. The majority of our staff are female but we have a lower representation of women in the upper levels of our organisation and this is reflected in a Gender Pay Gap in favour of male staff. We have made good progress on female recruitment since we became standalone and our Gender Pay Gap reduced markedly between 31 March 2019 and 31 March 2020.

We continued to manage our financial resources effectively and efficiently. We remained within our financial envelope during the year. In accordance with the terms of the fees regime we will provide a rebate to the sector of excess fee income for the year to 31 March 2020.

Towards the end of the year we responded to the emerging COVID-19 pandemic. We swiftly moved to homeworking (aided by an upgrade to our IT earlier in the year) and made changes to our regulatory approach to support the sector. We will keep this under regular review through 2020/21 to ensure we are responding as effectively as we can.

Performance analysis

We have analysed our performance against our corporate priorities. Our priorities support the achievement of our fundamental objectives as set in legislation.

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

Understanding developments in the sector

In order to effectively regulate the sector, it is essential that we understand the risks facing the sector to promote a viable, efficient and well-governed social housing sector. We achieve this by regularly gathering information from private registered providers, internal work and analysis and our external contacts (including learning from provider engagement and wider stakeholder liaison).

To understand developments in the sector and to ensure it is both visible and accountable to its stakeholders, we carry out an extensive programme of stakeholder engagement. This ranges from organising a regular series of bilateral meetings with key stakeholders to formal meetings that allow the regulator to engage transparently with the sector, as well as speaking at sector events.

The two main formal mechanisms we use for engagement are our statutory Sounding Board and our Fees and Resources Advisory Panel.

- The Sounding Board is comprised of the key representative bodies in the sector including organisations representing tenants, landlords, Government bodies and investors. We use this panel to discuss key developments in the sector and our regulatory response. This enables us to test our thinking and gain additional insight and challenge from attendees.

- The Fees and Resources Advisory Panel is comprised of bodies representing the landlord fee payers and key interested parties including lenders and tenant representative bodies and we use this to test propositions for the fee regime. This allows us to receive direct feedback on issues such as fee levels and the scope of the regime, and to receive constructive challenge and buy-in from our fee payers.

The formal mechanisms and our other engagement provide us with an invaluable, real time insight into developments in the sector and the perceptions of our stakeholders on the effectiveness of our regulatory regime. This insight feeds directly into the strategic decision-making of our senior management and Board.

Sharing our analysis and risk assessment

Alongside our engagement, we share the results of our analysis and risk assessment to the sector and to stakeholders in a suite of external publications, including

- four Quarterly Surveys[4] which include analysis on provider returns in relation to short-medium term finances
- the Global Accounts[5] which show the aggregate financial performance and strength of the private registered provider sector
- the Sector Risk Profile[6] which identifies for providers and their Boards issues of particular concern
- the Consumer Regulation Review[7] which helps the sector learn from the consumer regulation cases we have considered during the year.

In addition to the Sector Risk Profile we also published two Addenda. The first outlined our views on the sustainability of some registered providers of specialised supported housing that tend to lease their property portfolio from property funds and other private investors. The second was on setting rents for social housing, which set out the common issues that increase the risk of provider non-compliance with the Rent Standard 2020.

Alongside the Global Accounts we published an annex called *Value for money metrics and reporting*[8], which gave an analysis of providers' performance in relation to value for money.

During the year we developed our digital presence through the creation of website[9] pages specifically for investors and tenants to better inform those groups. We also made more use of social media channels to help us promote understanding of sector-level risks and awareness of our regulatory interventions.

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[4] https://www.gov.uk/government/collections/quarterly-survey-of-private-registered-providers
[5] https://www.gov.uk/government/collections/global-accounts-of-housing-providers
[6] https://www.gov.uk/government/collections/sector-risk-profiles
[7] https://www.gov.uk/government/collections/consumer-regulation-review
[8] https://www.gov.uk/government/collections/value-for-money-guidance-and-reports
[9] https://www.gov.uk/rsh

Priority 2: Deliver intelligence-led regulation

Regulating providers with more than 1,000 units

Our regulatory engagement with larger registered providers (those with more than 1,000 units) is structured around the Quarterly Survey, the annual Stability Check and the IDA. In 2016, we established a programme to carry out an IDA on all providers with over 1,000 social housing units within four years. This programme completed on schedule during the year and we have developed a more risk-based approach under which future IDA programmes will be delivered.

We have identified several distinct groups amongst the larger provider population, including

- very large providers with 40,000 or more units
- providers with a high level of non-social housing activity, primarily market sales but also including facilities management, care and other activities.

These providers would have a significant effect on the sector if they experienced difficulties, so we will build on the IDA approach to gather more frequent assurance on their plans and performance. We intend to carry out an IDA on these providers every other year, and to engage with their executive teams in the year in between. This will ensure we have a clear understanding of the way their businesses are developing and enable us to identify any emerging risks.

Our programme of Quarterly Surveys, annual Stability Checks and IDAs ensures that we have an up-to-date assurance against the Governance and Financial Viability and Value for Money standards. In line with our commitment to transparency and the timeliness of our publications we ensure that our Regulatory judgements and other regulatory publications are accessible and shared through appropriate media channels.

Regulating providers with fewer than 1,000 units

In addition to our regulation of larger providers we continued to carry out proportionate, effective and timely reactive engagement with providers with fewer than 1,000 units through the analysis of regulatory returns or notifications.

Case handling

Referrals	Consumer			Economic
	Stage 1	Stage 2	Stage 3	
Service standard	5 working days	15 working days	20 working days	5 working days
% meeting service standard	100%	78%	92%	87%

We maintain an effective consumer regulation function which responds when there is a breach of our standards and tenants are identified as experiencing, or being at risk of, serious detriment. More information on our approach is available in Regulating the Standards.

We have a three-stage process for handling consumer regulation referrals and took 316 cases through this process in 2019/20. We also took 54 cases through our economic service standard referrals process.

Addressing developing risks

Through our analysis of developing risks in the sector we identified potential issues with business models based primarily on the long-term leasing of social housing units. This prompted proactive engagement with a number of providers during the year, from which we have published a number of Regulatory judgements[10] identifying where providers have fallen short of our Regulatory standards[11].

Registering new providers

	Preliminary application
Service standard	15 working days
% meeting service standard	90%

We also continued to register new providers. We received 106 new registration applications, 78 of which were preliminary applications and 28 detailed applications.

Overall, across the year we assessed 90% of preliminary applications within our published 15-day target time with performance against targets improving in the second half of the year. In the small number of cases where we were not able to achieve the 15-day target this was because either additional information was required or the volume of applications received in the period was higher than the resources available. The performance improved markedly in the second half of the year after additional resource was added to the team.

We ensure that the register is maintained effectively in line with statute by registering new providers and restructured bodies and deregistered existing providers.

[10] https://www.gov.uk/guidance/lists-of-registered-social-housing-providers-and-regulatory-judgements
[11] https://www.gov.uk/guidance/regulatory-standards

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, and changes in registered providers' operating models and priorities. In particular, our regulatory framework and regulatory standards need to account for any significant changes in the operating environment and we have maintained it to make sure it remains fit for purpose.

Horizon scanning

We have further improved our risk management and horizon scanning approaches, both for sector risk and risks we face. We have developed our data and analysis capacity to enable a more detailed understanding of current and future risk exposures and continued to develop our methodology to evaluate emerging trends in the operational environment. This allows us to maintain levels of assurance across key risk indicators. We have established new arrangements for monitoring, reviewing and reporting our regulatory assurance to our Board.

We continue to work with MHCLG to support our horizon scanning activities and to feed into policy formulation through expert analysis of key issues. In 2019/20, we developed options in response to the social housing green paper, and implemented the new rent direction for social housing rents from 2020 onwards, including introducing rent regulation for local authorities.

Regulating rents

We consulted on our new Rent Standard which came into effect in April 2020, and published guidance on the mechanism for private registered providers to apply for exemption under the Rent Standard 2020. We also launched the pilot of the new Local Authority Data Return, in preparation for us taking on responsibility for local authority rent regulation in 2020.

Preparations for dealing with failing providers

We carried out a review of our regulatory preparations to deal with failing providers. This included:

- updating our contingency plans in the event of major and/or systemic failures
- carrying out an ongoing review of our approach to resolving cases of financial stress and intervention
- preparing for the introduction of the Housing Administration regime
- publishing updated guidance on intervention, enforcement and use of powers to reflect legislative changes, and our move to a standalone status.

Priority 4: Ensure we are an efficient and effective organisation

Following the successful transition of the regulator to a standalone non-departmental public body in 2018/19, we have carried out a full and comprehensive review to appropriately allocate our resources and ensure that we have the capacity and capability to continue delivering effective regulation.

People

In response to becoming a standalone organisation and taking account of emerging sector risks, we made changes to our structure and implemented the outcome of a resource review to ensure we have the capability to deliver our objectives.

We encourage applications from a diverse range of candidates and carry out blind shortlisting, as well as carrying out unconscious bias training for interviewers. We also encourage applicants to request reasonable adjustments where necessary.

In some cases, staff have either not completed the relevant sections or have declined to provide the data, referenced below as ‘Declined to respond/ un-declared’.

Following the launch of our organisational values in October 2018, over the last year we worked with staff to develop a set of behaviours to underpin our values and clearly articulate the kind of workplace and culture we want to have. These were launched in early 2020 and are set out on page 14.

We ran our first staff survey as a standalone organisation and saw improvements in several important areas. We achieved an 89% response rate and an employee engagement score of 69% which was one of our identified key performance indicators (KPIs). 79% of respondents agreed that we work well together as a regulator. The survey also highlighted areas where we would like to improve and we have carried out significant additional analysis and action planning in those areas.

	2017	2019	Change	
Response rate	68%	89%	↑	21%
Employee engagement	64%	69%	↑	5%
We work well together	53%	79%	↑	26%

Staff turnover for the year was better than our target; this is consistent with some of the overall positive conclusions from the staff survey. Our staff sickness rate during the year was also better than our target.

	Staff turnover	Staff sickness
Target	Less than 10%	Less than 2%
Actual	8.7%	1.7%

Systems

We delivered a digital transformation project to improve our IT hardware and systems with an upgrade to Microsoft Office 365 during the latter half of the year. This has helped us work more effectively and efficiently, using the most up-to-date systems. This investment enabled a swift and temporary move to exclusive homeworking in response to COVID-19.

Finance

	Fee collection	Invoices paid within 30 days	Budget spend
Target	100%	95% - 100%	95% - 100%
Actual	100%	98%	89%

We are primarily funded through fees paid by private registered providers. During the year we achieved our KPI to collect 100% of levied fees. We are also conscious of our responsibilities as a public sector body in relation to promptly paying suppliers and achieved our KPI of paying 95% of invoices within 30 days of receipt.

Under the terms of our fees regime, we rebate on a pro-rata basis any unspent fees after the end of each financial year. During the year we spent 89% of our available budget. The underspend was largely due to phasing recruitment to posts following becoming a standalone body on 1 October 2018.

Response to enquiries

	General enquiries	NROSH+ data enquiries	Requests for Information
Target time	5 working days	5 working days	20 working days
% meeting	100%	100%	84%

We received 2,332 general enquiries and responded to all of them within our target time of five working dates for an initial response. We received 1,994 enquiries about our NROSH+ data system and responded to all of them within our target time of five working days.

We also dealt with 37 requests for information (Freedom of Information requests and Environmental Information Regulation requests) and two subject access requests during 2019/20. 84% of these were responded to within our target time of 20 working days. In the small number of cases where we were not able to achieve the 20-day target this was because the work entailed was greater than the resources available at the time. As part of our resource review we have strengthened the team that deals with these requests to further improve our performance.

We carried out a stakeholder survey[12] to better understand how the sector and other stakeholders see our work. We set some KPIs on the response and against those 94% of respondents agreed we are meeting our objectives, 84% find our publications useful and 91% agree we take action to ensure confidence in the sector is maintained.

[12] https://www.gov.uk/government/collections/rsh-stakeholder-surveys

Financial performance

The regulator's financial performance for the twelve months to 31 March 2020 is set out in the Financial Statements starting on page 62. 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 local authority rent regulation, 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 by grant-in-aid from our sponsoring department MHCLG.

Operating costs increased as the regulator staffing complement increased to provide additional capacity to ensure that we can continue to effectively regulate the sector.

The regulator's expenditure for the period was within budget. As explained in the section below on *Fees and charges*, £0.98m (2018/19: £2.17m) of annual fees from 2019/20 is repayable to large providers.

There was a £2.13m actuarial gain on the defined benefit pension schemes primarily due to changes in the financial assumptions detailed in Note 13b to the Financial Statements. Pension valuations, which are performed in accordance with IAS 19 Employee Benefits, fluctuate as they are sensitive to changes in underlying assumptions.

Anti-corruption and anti-bribery measures

We are committed to the effective management and application of public funds in accordance with Managing Public Money. We are also subject to 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 2020, no incidents of fraud or material error were identified.

Human rights

The regulator takes the wellbeing 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 41.4 tonnes of carbon dioxide equivalent (CO_2e). The largest source is rail travel which accounts for 33.8 tonnes of CO_2e (82% of the total).

We operate out of five locations across England and our activities require travel to registered providers and to stakeholder engagement events. We use video conferencing to reduce travel and encourage the use of public transport where practicable. Rail accounted for 94% of distance travelled during the reporting period. Our travel policy allows flights to be taken when they are the most cost-effective means of transport. This, along with the shorter reporting period previously, accounts for the increase in flights on the previous period.

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.

Interested users are referred to the Department for Environment, Food & Rural Affairs' upcoming annual report of progress on Greening Government Commitments, containing a thorough sustainability report across the UK Government, which will be published on the Government's website.

Sustainability performance data

Greenhouse Gas (GHG) Emissions (scope 3)

		2019/20 12 months	2018/19 6 months
Non-financial indicators (tonnes CO_2e)	Flights	3.3	0.4
	Car	4.3	3.2
	Rail	33.8	20.1
		41.4	23.7
Related energy consumption ('000s km)	Flights	21,066	2,684
	Car	27,150	17,307
	Rail	763,507	454,725
		811,723	474,716
		£'000	£'000
Financial indicators	Official business travel	377	176

Resources, Waste and Recycling

		A4 reams equivalent	
Paper consumed	Number	1,251	474
	Reams per FTE staff	8.1	3.2
		£'000	£'000
Financial indicators	Paper procurement	5	2

The Performance Report has been signed on 26 October 2020

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 – provide 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)
- Jo Boaden (appointed 1 September 2019)
- Elizabeth Butler
- Deborah Gregory (appointed 1 September 2019)
- Richard Hughes
- Ceri Richards
- Fiona MacGregor (Chief Executive and Accounting Officer)
- Richard Moriarty (term ended 30 September 2019)
- Paul Smee

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 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 April 2021 and August 2023.

Register of members' interests

The register of members' interests is open for public inspection and can be found on the regulator's website[13].

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 HRA 2008.

The cost of work performed by the auditors for 2019/20 was £60,000 (2018/19: £90,000).

[13] https://www.gov.uk/government/publications/register-of-interests-board-of-rsh

Statement of Accounting Officer's Responsibilities

Under the HRA 2008, the Secretary of State has directed the Regulator of Social Housing to prepare for each financial period 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 year.

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[14]. 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[15] 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[16]) 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.

[14] https://www.legislation.gov.uk/uksi/2018/1040/contents/made

[15] https://www.gov.uk/government/publications/framework-between-rsh-and-mhclg

[16] 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
- 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 (REG), 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[17], which are available for the public to review.

Board composition

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

- the Chair appointed by the Secretary of 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).

The Chair and the other members referred to above are collectively referred to in the legislation as appointed members.

[17] https://www.gov.uk/government/organisations/regulator-of-social-housing/about/terms-of-reference

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 Board members is detailed in our Directors' report on page 33.

Board effectiveness

In June 2020 the Board assessed its effectiveness for the period June 2019 to May 2020. This was done by way of survey of Board members and officers. As part of the review the Board specifically considered its effectiveness in ensuring the regulator's main risk areas are being reviewed, monitored and mitigated, its effectiveness in overseeing the regulator's overall performance, and the clarity, effectiveness and appropriateness of advice from officers. Board members considered that the routine and ad-hoc reports they receive are appropriate.

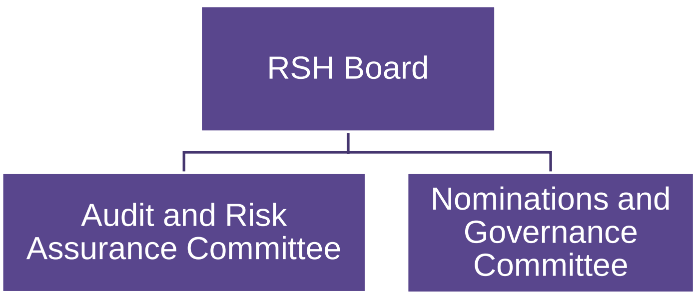
The survey responses were broadly positive. The need for improvement in the ethnic diversity of the Board was raised, and has subsequently been discussed and is treated as a priority issue for the regulator. The regulator has discussed the matter with MHCLG which has responsibility for Board recruitment on behalf of the Secretary of State.

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.

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.



Audit and Risk Assurance Committee

The role of the Audit and Risk Assurance Committee (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

The Committee has its own Terms of Reference and Standing Orders which are available for the public to review[18].

Meetings are also attended by the representatives of the National Audit Office (NAO) and MHCLG. In February 2020, the Committee assessed its effectiveness by way of a survey of Committee members, officers, NAO and internal audit. The results were discussed by the Committee and were positive.

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)
- Jo Boaden (appointed 8 April 2020)
- Richard Moriarty (term ended 30 September 2019)
- Paul Smee

[18] https://www.gov.uk/government/publications/audit-and-risk-assurance-committee

The Committee has its own Terms of Reference and Standing Orders which are available for the public to review[19].

Board and Committee attendance

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

Member	Board	ARAC	NGC
Simon Dow	10 / 10		1 / 1
Jo Boaden	6 / 6		
Elizabeth Butler	10 / 10	5 / 5	
Deborah Gregory	6 / 6		
Richard Hughes[20]	9 / 10	5 / 5	
Ceri Richards	10 / 10	5 / 5	
Fiona MacGregor[21]	10 / 10	5 / 5	1 / 1
Richard Moriarty	3 / 5		1 / 1
Paul Smee	9 / 10		1 / 1

Regulation Executive Group

REG is the principal Executive 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 (as at 31 March 2020):

- Fiona MacGregor, Chief Executive (who is also the regulator's Accounting Officer and a member of the Board)
- Jonathan Walters, Deputy Chief Executive
- Will Perry, Director Strategy
- Richard Peden, Director Finance and Corporate Services
- Maxine Loftus, Director Regulatory Operations
- Mick Warner, Director Special Projects
- Harold Brown, Senior Assistant Director Investigation and Enforcement.

[19] https://www.gov.uk/government/publications/nominations-and-governance-committee

[20] Richard Hughes attended part of the November 2019 Board meeting

[21] Fiona MacGregor attended ARAC and NGC in her capacity as Chief Executive and Accounting Officer

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
- 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 and corporate priorities.

The regulator considers strategic risks to be uncertain events that, should they occur, will adversely impact on our ability to deliver our strategic objectives and thereby our ability to meet our fundamental objectives set out in statute. Our strategic risks fall into one or more of the following categories:

- Policy: arising from the role the regulator must undertake
- Reputational: maintaining the legitimacy and authority of the regulator
- Organisational capacity: having the right people, skills, resources, systems, tools and resilience
- Corporate and compliance: arising from corporate and compliance responsibilities and obligations.

We have a Risk Review Group, comprising officers and representatives of REG, which regularly reviews our strategic risks. REG and ARAC discuss the risk register quarterly. Board receives the risk register in full twice per annum with a quarterly summary provided in the performance and risk report.

Each strategic risk has controls in place which support the management of the risk by detecting and preventing it from crystallising or mitigating it should it occur. We have adopted a 'three lines of defence' model to provide assurance on the operation of controls. Assurance sources are mapped to each control at three levels:

1. First line (business management)
2. Second line (corporate oversight)
3. Third line (internal audit/ external assurance).

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 2020, there were no incidents of whistleblowing or of personal data breaches reported to the ICO.

Sources of assurance

Internal audit

An annual programme of internal audit is carried out to provide independent assurance as to the adequacy and effectiveness of the framework of governance, risk management and control as it is operated at the regulator. The 2019/20 programme comprised five reviews including reviews of Budget Monitoring and Financial Management, and the regulator's Risk Management framework. Three of the five reviews concluded Substantial assurance and two concluded Moderate assurance. No high priority actions were raised and moderate and low priority findings have been actioned or are currently due to be completed on schedule. The overall internal audit conclusion for the year was one of Substantial assurance. Governance was reviewed by Internal audit in 2018/19 and providing a Substantial level of assurance.

Corporate Governance in Central Government Departments: Code of Good Practice 2017

In so far as the Code applies, the regulator has applied the principles of the Code which requires that bodies operate according to the principles of good governance in business, leadership, effectiveness, accountability and sustainability.

Conclusion on governance, risk management and internal control

I have taken assurance from statements prepared by key managers in the organisation, the conclusions of internal and external auditors, and the Board's effectiveness assessment. I have also taken account of the regular assurance review and lessons learned work that the regulator undertakes, which takes account of the Corporate Risk register and the assurance map. This includes the regular in-depth reviews at ARAC of specific topics and the controls and assurance related to individual work areas. Based on the information I have received, I am content that the regulator is operating effective governance, risk management and internal control.

Key challenges

During the year, the organisation undertook a review of the resources needed to effectively deliver its role and has been recruiting in line with the outcomes of the review. Our investment programme for staff and infrastructure was impacted by the COVID-19 pandemic but is on track to be completed during 2020/21. The organisation has adapted well to the requirement of remote working and has been able to adapt its regulatory approach in response to the impact of COVID-19 restrictions on the regulated sector. We currently await publication of the Social Housing White Paper which is likely to have significant implications for the regulator moving forward.

Fiona MacGregor
Chief Executive and Accounting Officer

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 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 Executive in their capacity as employees of the Regulator of Social Housing for the period to 31 March 2020.

Board Members' remuneration (subject to audit)

	Salary £'000		Full year equivalent salary £'000	
	2019/20	2018/19	2019/20	2018/19
Jo Boaden[22]	6	-	11	-
Elizabeth Butler	11	6	11	11
Simon Dow[23]	65	33	65	65
Deborah Gregory[22]	6	-	11	-
Richard Hughes	11	6	11	11
Richard Moriarty[24]	6	6	11	11
Ceri Richards	11	6	11	11
Paul Smee	11	6	11	11

The 2018-19 reporting period covered the six month period from 1 October 2018 to 31 March 2019.

Remuneration of senior staff (subject to audit)

	Salary £'000		Full year equivalent salary £'000		Bonus £'000		Pension £'000		Total £'000	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Harold Brown	105-110	50-55	105-110	100-105	0-5	0-5	26	6	130-135	55-60
Maxine Loftus[25]	65-70	-	100-105	-	0-5	-	69	-	135-140	-
Fiona MacGregor	150-155	75-80	150-155	150-155	0-5	0-5	39	10	190-195	85-90
Richard Peden	110-115	50-55	110-115	105-110	0-5	-	25	12	135-140	65-70
Will Perry[26]	70-75	-	105-110	-	0-5	-	32	-	105-110	-
Jonathan Walters	125-130	60-65	125-130	125-130	0-5	0-5	34	10	160-165	70-75
Mick Warner	105-110	50-55	105-110	105-110	0-5	0-5	28	6	135-140	55-60

The 2018-19 reporting period covered the six month period from 1 October 2018 to 31 March 2019. There were no benefits-in-kind paid in 2019/20 (2018/19: £nil).

[22] Jo Boaden and Deborah Gregory joined the Board on 1 September 2019
[23] Interim Chair of the Board
[24] Richard Moriarty left the Board on 30 September 2019
[25] Maxine Loftus became a member of the Executive on 1 August 2019; prior to this date she was employed in a role not subject to disclosure.
[26] Will Perry became a member of the Executive on 1 August 2019; prior to this date he was employed in a role not subject to disclosure.

Pension benefits (subject to audit)

	Annual accrued pension at 31 March 2020	Real increase in accrued annual pension	Accrued lump sum at 31 March 2020	Real increase in accrued lump sum	CETV at 31 March 2020	CETV at 31 March 2019	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Harold Brown	40 - 45	0 – 2.5	55 - 60	(2.5) - 0	676	637	28
Maxine Loftus[27]	40 - 45	2.5 - 5	55 - 60	2.5 - 5	685	599	76
Fiona MacGregor	50 - 55	2.5 - 5	60 - 65	(2.5) - 0	968	898	55
Richard Peden	0 - 5	0 - 2.5	5 - 10	2.5 - 5	93	50	42
Will Perry[27]	5 - 10	0 – 2.5	20 - 25	2.5 - 5	214	174	37
Jonathan Walters	35 - 40	0 – 2.5	35 - 40	(2.5) - 0	551	509	33
Mick Warner	40 - 45	0 - 2.5	55 - 60	(2.5) - 0	793	747	34

The Executive 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.

Accrued pension at 31 March 2020

The accrued pension entitlement is the pension which would be paid annually on retirement, based upon pensionable service to 31 March 2020.

Cash Equivalent Transfer Value at 31 March 2020

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.

[27] Comparative values as at 31 July 2019 and increases for the period 31 July 2019 to 31 March 2020.

Termination payments to key managers (subject to audit)

Termination payments to key managers during the period 1 April 2019 to 31 March 2020 were £nil (2018/19: £nil).

Staff costs (subject to audit)

	2019/20 12 months			2018/19 6 months		
	Permanent £'000	Others £'000	Total £'000	Permanent £'000	Others £'000	Total £'000
Wages and salaries	8,599	142	8,741	4,168	99	4,267
Social security costs	1,015	16	1,031	475	11	486
Pension costs	4,327	35	4,362	1,437	22	1,459
Redundancy costs	452	-	452	-	-	-
Sub total	**14,393**	**193**	**14,586**	**6,080**	**132**	**6,212**
Less recoveries in respect of outward secondments	(8)	-	(8)	(35)	-	(35)
Total net costs	**14,385**	**193**	**14,578**	**6,045**	**132**	**6,177**

Redundant costs include £153k of payments to the pension scheme related to early retirement entitlements. Wages and salaries include £33k (2018/19: £29k) of non-consolidated performance-related pay.

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:

	2019/20	2018/19
Permanent UK staff	150	144
Fixed-term UK staff	4	4
Total	**154**	**148**

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

	2019/20	2018/19
£0 - £25,000	3	4
£25,001 - £50,000	83	82
£50,001 - £75,000	47	43
£75,001 - £100,000	15	13
£100,001 - £125,000	4	4
£125,001 - £150,000	1	1
£150,001 - £175,000	1	1
Total	**154**	**148**

Gender

The gender of key managers and employees as at 31 March 2020 can be analysed as follows:

	2019/20	2018/19
Key managers - Male	5	4
Key managers - Female	2	1
Other employees - Male	55	55
Other employees - Female	99	92
Total	**161**	**152**

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 2020. The annualised remuneration of the highest paid director was £150,000 – £155,000 (2018/19: £150,000 - £155,000). The mid-point of this band was 3.0 times (2018/19: 3.2 times) the median annualised remuneration of the workforce, which was £50,033 (2018/19: £47,382). The multiple between highest paid director and median remuneration has reduced due to changes in staff composition during the year, which increased median pay. Remuneration ranged from £11,000 to £150,000 – £155,000 (2018/19: £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 CETV of pensions.

Exit packages (subject to audit)

We offer compensation when staff agree to leave the organisation in circumstances where the departure provides an opportunity to refresh our skill base and contributes to a reduction in our costs. During 2019/20 MCHLG, the regulator's sponsor department, approved a targeted voluntary redundancy scheme, the compensation agreed has not exceeded the Cabinet Office's recommended cap of £95,000.

Exit costs are accounted for in full when the departure has been approved and terms agreed. Voluntary exit costs in the period:

	2019/20	**2018/19**
£0 - £10,000	-	-
£10,001 - £25,000	-	-
£25,001 - £50,000	-	-
£50,001 - £100,000	5	-
£100,001 - £150,000	-	-
£150,001 - £200,000	-	-
Total number of exit packages	5	-
Total cost of exit packages £'000	452	-

Expenditure on consultancy

During the period 1 April 2019 to 31 March 2020 the regulator incurred expenditure of £nil (2018/19: £nil) on consultancy, as defined by the Cabinet Office.

Apprenticeship levy

During the period 1 April 2019 to 31 March 2020 the regulator incurred expenditure of £28,381 (2018/19: £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 Government Financial Reporting Manual (FReM)[28], the regulator is required to publish details of highly paid and senior off-payroll engagements. The regulator incurred £nil (2018/19: £nil) in respect of off-payroll engagements during the period 1 April 2019 to 31 March 2020.

Employee matters

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 consulted on our first set of Equality objectives[29] during 2019/20.

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 wellbeing and promotes supportive behaviours. PWG members were instrumental in the development of the regulator's Wellbeing 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 staff feel are impacting on their working life and which they feel unable to discuss with their line manager.

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.

[28] The Government Financial Reporting Manual is issued by HM Treasury

[29] https://www.gov.uk/government/organisations/regulator-of-social-housing/about/equality-and-diversity

In the event that any employee becomes disabled whilst employed by the regulator, the Human Resources 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.

Sickness absence

The regulator's sickness absence has been favourable when compared with public and private sector benchmarks, with an average number of 3.7 working days lost per employee in 2019/20. We also calculate our sickness absence as a proportion of working time lost, which was 1.8% in 2019/20 against a target of 2%.

Health and safety

The regulator has established a Health and Safety Committee which meets quarterly and is chaired by the Director Finance and Corporate Services. No incidents occurred during the period 1 April 2019 to 31 March 2020 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 2019/20 the regulator consulted on proposals for a revised organisational structure to boost our capacity in a number of areas to ensure we are able to continue to effectively meet our fundamental objectives.

We also carried out an informal consultation with staff on developing a set of organisational behaviours to support the values as part of our People Strategy and to help us continue to meet our fundamental objectives. This was carried out via a series of meetings and workshops.

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 regulator is required to make the following disclosures regarding Trade Union Facility Time:

Relevant union officials

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

Percentage of time spent on facility time

Percentage of time	Number of employees
0%	-
1-50%	6
51-99%	-
100%	-

Percentage of pay bill spent on facility time

Total cost of facility time	£27,820
Total pay bill	£14,586k
% of total pay bill spent on facility time	0.19%

Paid trade union activities

Time spent on trade union activities as a percentage of the total paid facility time hours	5%

Parliamentary accountability and audit report

Regularity of expenditure (subject to audit)

The regulator incurred no losses, special payments or gifts during the periods 2019/20 or 2018/19.

Fees and charges (subject to audit)

The Regulator of Social Housing introduced fees[30] from 1 October 2017 following a statutory consultation in 2016. The regulator has a Fees and Resources Advisory Panel[31] alongside existing stakeholder engagement arrangements, as an advisory body to the regulator.

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 2019/20 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: £4.72 per social housing unit.

III. Initial registration fee charged to those who successfully register: £2,500.

[30] https://www.gov.uk/government/publications/fees-for-social-housing-regulation

[31] https://www.gov.uk/government/publications/fees-and-resources-advisory-panel-terms-of-reference

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 annual fee-funded costs there is 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 2019/20 are £0.99m:

	2019/20 £'000
Total fees invoiced	12,732
Fee-funded costs for the period	11,752
Fees repayable to larger providers	980

The maximum annual registration fees for 2020/21 have been set following consultation at £14,743k.

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 business, the regulator has made statutory appointments to some Boards of registered providers under section 269 of the HRA 2008; the regulator sometimes provides indemnities to appointees. It is not possible to quantify this remote contingent liability due to its nature and absence of any claim under past indemnities issued.

The regulator may be subject to legal challenge within its normal course of business. 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 contingent liabilities at the reporting date.

The regulator does not have any other material remote contingent liabilities.

The Accountability report has been signed on 26 October 2020

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 year ended 31 March 2020 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 2020 and of the net expenditure for the year then ended; and

- the financial statements have been properly prepared in accordance with the Housing and Regeneration Act 2008 and 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you, where:

- the Regulator of Social Housing's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Regulator of Social Housing have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Regulator of Social Housing's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the 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's 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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- conclude on the appropriateness of the Regulator of Social Housing'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. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause the Regulator of Social Housing to cease to continue as a going concern.

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 described in that report as having been audited, the financial statement 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, 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 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 the Accountability Report for the financial year 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 required 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 30 October 2020
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Financial Statements

Statement of Comprehensive Net Expenditure

Year ended 31 March 2020

	Note	2019/20 12 months £'000	2018/19[32] 6 months £'000
Operating income:			
Registered provider fee income	4.1	(11,767)	(5,654)
Other income	4.2	(379)	(49)
		(12,146)	**(5,703)**
Operating expenditure:			
Staff costs	2	14,586	6,212
Purchase of goods and services	3	3,135	1,414
Depreciation, loss on disposal and amortisation charges	3	170	56
		17,891	**7,682**
Net operating expenditure		**5,745**	**1,979**
Interest income		(13)	(5)
Pension net finance costs	13(d)	104	34
Absorption transfer	1.12	-	703
Net expenditure for the period		**5,836**	**2,711**
Other comprehensive net expenditure:			
Actuarial (gain)/loss from pension fund	13(e)	(2,133)	2,080
Total comprehensive expenditure for the period		**3,703**	**4,791**

[32] The regulator became a standalone entity on 1 October 2018. The 2018/19 reporting period covered the six months to 31 March 2019.

Statement of Financial Position

As at 31 March

	Note	2020 £'000	2019 £'000
Non-current assets:			
Property, plant and equipment	5	324	55
Intangible assets	6	111	203
Pension assets	13(a)	-	364
		435	**622**
Current assets:			
Trade and other receivables	8	411	98
Cash and cash equivalents	7	10,726	10,207
		11,137	**10,305**
Total assets		**11,572**	**10,927**
Current liabilities:			
Registered provider fee rebate	9	(980)	(2,170)
Registered provider deferred fees	9	(6,062)	(5,428)
Trade and other payables	9	(1,797)	(711)
		(8,839)	**(8,309)**
Total assets less current liabilities		**2,733**	**2,618**
Non-current liabilities:			
Pension liabilities	13(a)	(5,483)	(5,834)
Assets less liabilities		**(2,750)**	**(3,216)**
Reserves:			
Income and expenditure reserve		(4,743)	(5,197)
Regulation reserve		1,993	1,981
Taxpayers' equity		**(2,750)**	**(3,216)**

The notes on pages 66 to 69 form part of these accounts.

Fiona MacGregor
Chief Executive and Accounting Officer

26 October 2020

Statement of Cash Flows

Year ended 31 March 2020

	Note	2019/20 12 months £'000	2018/19 6 months £'000
Net cash (outflow) / inflow from operating activities		**(3,611)**	**8,656**
Cash flows from investing activities:			
Purchase of property, plant and equipment[33]		(52)	(29)
Interest received		13	5
Net cash (outflow) from investing activities		**(39)**	**(24)**
Cash flows from financing activities:			
Grant-in-aid from sponsor department	SoCTE	4,169	1,575
Net cash inflow from financing activities		**4,169**	**1,575**
Increase in cash and cash equivalents in the period		**519**	**10,207**
Cash and cash equivalents at 1 April		10,207	-
Cash and cash equivalents at 31 March	7	**10,726**	**10,207**

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

	Note	2019/20 12 months £'000	2018/19 6 months £'000
Net operating expenditure	SoCNE	(5,745)	(1,979)
Amortisation	3	92	46
Depreciation and loss on disposal	3	78	10
Pension costs	13(d)	4,515	1,459
Employer contributions to pension	13(f)	(2,473)	(1,054)
(Increase)/Decrease in Trade and Other Receivables		(313)	9,998
Increase in trade and other current liabilities		235	176
Net cash (outflow) / inflow from operating activities		**(3,611)**	**8,656**

[33] £295k (2018/19: £nil) of PPE additions were paid after 31 March. These additions are therefore not included within the Statement of Cash Flows but are included in both note 5 'PPE' and note 9 'Trade payables and other current liabilities'.

Statement of Changes in Taxpayers' Equity

Year ended 31 March 2020

	Note	Income and expenditure reserve £'000	Regulation reserve £'000	Total £'000
Balance at 1 October 2018		-	-	-
Grant-in-aid from sponsor department		1,575	-	1,575
Net expenditure		(4,692)	1,981	(2,711)
Actuarial (loss) from pension fund		(2,080)	-	(2,080)
Balance at 31 March 2019		**(5,197)**	**1,981**	**(3,216)**
Grant-in-aid from sponsor department		4,169	-	4,169
Net income/(expenditure)		(5,848)	12	(5,836)
Actuarial gain from pension fund	13(e)	2,133	-	2,133
Balance at 31 March 2020		(4,743)	1,993	(2,750)

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 HRA 2008 and in accordance with the 2019-20 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). 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.

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. 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 three-year expected useful life.

1.03 Intangible assets

Intangible assets relate to NROSH+ system development costs. NROSH+ is used by registered providers to submit information to the regulator electronically. The FReM requires that intangibles should be valued on a depreciated replacement cost basis. However, depreciated replacement cost as at March 2020 was not materially different to the depreciated historical cost, so depreciated historical cost has been used for simplicity.

Assets are capitalised where the cost of an asset exceeds £200. The expected useful economic life for individual NROSH+ system developments is four years and has a remaining amortisation periods between 0 to 2.5 years.

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 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.

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.

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 8 of IAS 19 'Employee Benefits'. Plan assets are measured at fair value, and liabilities are measured on an actuarial basis and discounted to present value.

The net 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 paragraph 16 of 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.

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 Receivables

Receivables are recognised 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.

1.10 Regulation reserve

The regulator holds surplus property transferred to it under section 167 of the HRA 2008 (and under previous legislation) within the regulation reserve.

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.

1.11 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.

The estimation of fair value of pension scheme assets is subject to increased levels of uncertainty as at 31 March 2020 due to the impact of COVID-19 which has caused significant volatility in asset values and difficulty in estimating the fair value of unquoted property investments. Property investments are valued on the basis of open market value using rental yield and occupancy rate assumptions which are materially uncertain due to the impact of the COVID-19 pandemic. The regulator still considers these valuations to be the best estimate of the valuation of property investments, but there is a higher degree of uncertainty compared to previous 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.

1.13 Segmental reporting

IRFS 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.

IFRS 16 Leases – Date of adoption: 1 April 2021

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.

The regulator expects the office licenses to contain clauses allowing the landlord the substantive right to substitute the office space thereby not meeting the requirements of IFRS 16 for there to be an identified asset. As such IFRS 16 Leases is not expected to impact on the regulator.

1.15 Domicile status

The regulator's registered office is Manchester, England. The regulator operates solely within England.

2. Staff costs

	2019/20 12 months £'000	2018/19 6 months £'000
Total staff costs charged to net expenditure comprise:		
Wages and salaries	8,741	4,267
Social security costs	1,031	486
Pension costs	4,362	1,459
Redundancy costs	452	-
Total staff costs	**14,586**	**6,212**

Redundant costs include £153k of payments to the pension scheme related to early retirement entitlements. Wages and salaries include £33k (2018/19: £29k) of non-consolidated performance-related pay paid in December 2019.

IAS 19 pension accounting introduces volatility within pension costs. In 2019/20 pension costs were £2,042k higher than the employer pension contributions (2018/19: £405k). Further information on pensions is included within Note 13.

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

The Accountability report includes further details including the average number of staff employed, staff numbers by pay band and exit payments.

3. Other expenditure

	Note	2019/20 12 months £'000	2018/19 6 months Re-presented[34] £'000
Purchase of goods and services:			
Corporate services: IT		875	372
Corporate services: office rent under operating leases[35]		667	400
Corporate services: other[36]		267	154
Legal costs		524	38
Travel and subsistence		377	176
Learning and development		122	41
IT systems maintenance		70	104
Professional fees		99	17
External audit fees		60	90
Other		74	22
Total goods and services		**3,135**	**1,414**
Non-cash items:			
Amortisation	6	92	46
Depreciation	5	40	10
Loss on disposal	5	38	-
Total non-cash items		**170**	**56**
Total		**3,305**	**1,470**

[34] 2018/19 costs have been re-presented to match 2019/20 spend descriptors

[35] The regulator has no contingent rents or sublease payments.

[36] Corporate services: other includes human resources, facilities management, finance and internal audit provided by Homes England under the shared service contract.

4. Income

4.1 Revenue from Contracts with Customers

Section 117 of the HRA 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.

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 each year at the beginning of March with payment terms of 30 days, due the first week of April.

Regulation fees are set annually with the sector for the period 1 April to 31 March. Regulation fees are dependent upon the number of each private registered provider's owned social housing units as reported to the regulator in the preceding reporting period. Large providers, classified as having 1,000 or more units, are charged on a per-unit basis. Fees for the reporting period were as follows:

Fee	Fee Level 2019/20
Initial registration fee	£2,500
Annual registration fee for small providers (less than 1,000 units)	£300 flat fee
Annual registration fee for large providers (1,000 units or more)	£4.72 per unit

Where registration fees received for a period exceed the relevant costs incurred in the period, the remaining balance of fees is returned to providers. The rebate due to registered providers for unspent 2019/20 fees is shown as a liability within the Statement of Financial Position.

Unspent fees are rebated to large providers proportionate to the number of units on which their fees for the period were charged. A rebate 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 fee charged.

Identification of a contract

There is deemed to be a contract with registered providers in accordance with FReM adaptations of IFRS 15 where the definition of contract is expanded to include legislation set out in Section 117 of the HRA 2008.

Identification of performance obligations

The regulator has determined performance obligations for each contract type:

Contract	Performance obligation
Initial registration fee	Initial registration of the provider on the Register of Social Housing
Annual registration fee	Registration of the provider on the Register of Social Housing; and Expenditure incurred in respect of social housing sector regulation

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 at which point the initial registration fee is payable, within 30 days, and is recognised as an asset by the regulator.

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 during the financial year and that the annual registration fee is spent on social housing sector regulation. The annual fee is due and received at the beginning of the financial year but recognised as income to match the regulator's satisfaction of performance obligations as expenditure is incurred on regulation reflecting the transfer of services by the regulator. The consideration is variable dependent upon regulation expenditure with any unspent annual fees rebated to large registered providers once the regulator's accounts have been laid before parliament.

Contracts do not have a financing component.

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 as social housing sector regulation costs are incurred, with any unspent annual fees rebated to large providers (with more than 1,000 units) once the regulator's accounts for that period have been laid before Parliament.

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

Contract income

The regulator recognised the following registered provider fee income:

	2019/20 12 months £'000	2018/19 6 months £'000
Initial registration fee	15	10
Annual registration fee	11,752	5,644
	11,767	**5,654**

Contract balances

There is £8k (2018/19: £nil) of initial registration fees which were due but not yet invoiced as at 31 March 2020. Contract balances related to registered provider annual fees are disclosed below.

	Receivables asset £'000	Registered provider fee rebate £'000	Registered provider deferred fees £'000
As at 1 April 2019	**1**	**(2,170)**[37]	**(5,428)**[38]
Refund of 2018/19 fees	-	2,170	-
Cash received for 2019/20 fees	-	-	(7,302)
Unpaid 2019/20 fees	2	-	(2)
Revenue recognised in year	-	-	11,752
Transfer	-	(980)	980
Cash received for 2020/21 fees	-	-	(6,062)
As at 31 March 2020	**3**	**(980)**[39]	**(6,062)**

An impairment loss of £1k (2018/19: £1k) has been recognised during the year for annual registration fees more than 3 months' overdue.

[37] Unspent 2018/19 annual registration fees were refunded in December 2019

[38] Cash received for 2019/20 annual registration fees in 2018/19

[39] Unspent 2019/20 annual registration fees will be rebated once the regulator's annual report and accounts has been laid before parliament

4.2 Other income

	2019/20 12 months £'000	2018/19 6 months £'000
Recovery of legal fees	337	-
The Housing Finance Corporation Ltd director fee	17	7
Affordable Housing Finance Plc director fee	17	7
Secondment recharge	8	35
	379	**49**

During the period, the regulator was subject to a Judicial Review in relation to certain of its regulatory decisions about a registered provider. The Judicial Review found in favour of the regulator and made an award of costs. Recovery of legal fees income relates to the legal cost reimbursement awarded to the regulator.

One employee of the regulator was on secondment to Homes England during the period for which the regulator recharges payroll costs. One employee has been nominated by the regulator as 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

	IT equipment	
	2020	**2019**
	£'000	£'000
Cost:		
At 1 April / 1 October	65	36
Additions	347	29
Disposals	(62)	-
As at 31 March	**350**	**65**
Depreciation:		
At 1 April 2019 / 1 October	10	-
Charged in period	40	10
Disposals	(24)	-
As at 31 March	**26**	**10**
Carrying value as at 31 March	**324**	**55**

Loss on disposal of £38k occurred during the year as part of an IT replacement programme. This amount is included within the deprecation charge on the SoCNE.

6. Intangible assets

	NROSH +	
	2020	**2019**
	£'000	£'000
Cost:		
At 1 April / 1 October	249	249
Additions	-	-
As at 31 March	**249**	**249**
Amortisation:		
At 1 April / October	46	-
Charged in period	92	46
As at 31 March	**138**	**46**
Carrying value as at 31 March	**111**	**203**

7. Cash and cash equivalents

	2020	**2019**
	£'000	£'000
Opening balance	10,207	0
Net change in cash balances	519	10,207
Cash balances as at 31 March	**10,726**	**10,207**
The following cash balances at 31 March were held:		
General bank account	8,733	8,226
Section 167 bank account	1,993	1,981
Cash at bank	**10,726**	**10,207**

The regulator's cash balances are held within the Government Banking service. The section 167 bank account relates to the regulation reserve detailed in Note 1.10.

8. Trade and other receivables

Amounts falling due within one year	2020 £'000	2019 £'000
Prepayments	55	53
Trade receivables	-	35
Accrued Income	337	-
Employee loans	8	9
Registered provider initial fees	8	-
Registered provider annual fees	3	1
	411	**98**

Accrued income primarily relates to court awarded costs detailed in Note 4.2.

9. Trade payables and other current liabilities

Amounts falling due within one year	Note	2020 £'000	2019 £'000
Employee holiday balance		382	338
Accruals		849	345
Trade payables		566	28
		1,797	**711**
Registered provider deferred fees	4.1	6,062	5,428
Registered provider fee rebate	4.1	980	2,170
		8,839	**8,309**

10. Commitments under leases

When the regulator became standalone on 1 October 2018 it occupied office space under arrangements with Homes England which held the primary relationship with the landlord. As discussed in Note 11, the regulator has a shared service contract with Homes England until 30 September 2020, and the office element of the shared service contact is considered an operating lease and the related commitments are disclosed.

Homes England recharge to the regulator office costs based upon relative desk allocations for each office providing the regulator with open book accounting. The recharged office costs reflect Homes England's lease payments with their landlords. The shared service contract contains a 12-month break clause with no automatic renewal beyond 30 September 2022.

The regulator has changed to paying for two office locations directly with the relevant landlords and not via the Homes England shared service contract. The regulator is still in the process of entering into contracts for these offices with Government bodies. As such, there are currently no lease commitments for the two office locations not paid under the Homes England shared service contract, resulting in a significant reduction in the disclosed commitments since last year.

The aggregate minimum lease payments are as follows:

Land and buildings	**2020**	**2019**
	£'000	£'000
Payable within 1 year	139	824
Payable later than 1 year and not later than 5 years	214	2,173

11. Other financial commitments

The regulator entered 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 12-month break clause.

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 are reviewed annually under the terms of the contract

The expected costs, excluding the office rent charges disclosed in Note 10, under the Service Level Agreement (SLA) are set out below:

	2020 £'000	**2019** £'000
Payable within 1 year	1,091	1,036
Payable later than 1 year and not later than 5 years	1,681	2,682

12. Related-party transactions

The regulator is a non-departmental public body sponsored by MHCLG which provides funding through grant-in-aid payments and is regarded as a related party.

MHCLG also sponsors Homes England which provides corporate services to the regulator including office space. The regulator had one member of staff on secondment with Homes England during the period for which it recharged payroll costs.

The regulator rents office space from Government departments and bodies including the National Institute for Health and Care Excellence, Ministry of Justice and the Government Property Agency.

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.

13. 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 (HCAPS)
- 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 operates both a final salary and a career average tier. 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. New employees can only participate in the HCAPS career average scheme. 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 which has 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 2020 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.

An allowance has been made for the Court of Appeal judgement in relation to the McCloud & Sargeant cases which relate to age discrimination within the Judicial & Fire Pension schemes respectively. On 27 June 2019 the Supreme Court denied the Government's request for an appeal, and on 15 July 2019 the Government released a statement to confirm that it expects to have to amend the LGPS.

The judgement does not impact HCAPS. The estimated impact on the total liabilities at 31 March 2020 has been allowed for as a past service cost. It should be noted that this adjustment is an estimate of the potential impact on the employer's defined benefit obligation based on analysis carried out by the Government Actuary's Department (GAD) and the employer's liability profile. It is not yet clear how this judgement may affect LGPS members' past or future service benefits.

a. Pension (liabilities) / assets

	HCAPS £'000	LGPS £'000	Total £'000
31 March 2019:			
Fair value of employer assets	8,204	29,015	37,219
Present value of funded liabilities	(7,840)	(34,849)	(42,689)
Net surplus / (deficit)	**364**	**(5,834)**	**(5,470)**
31 March 2020:			
Fair value of employer assets	9,662	29,054	38,716
Present value of funded liabilities	(10,008)	(34,191)	(44,199)
Net (deficit)	**(346)**	**(5,137)**	**(5,483)**

b. Actuarial assumptions

Financial assumptions:

	31 March 2020		31 March 2019	
	HCAPS	**LGPS**	**HCAPS**	**LGPS**
Inflation (CPI)	2.00%	1.85%	2.10%	2.40%
Pension increases	2.10%	1.85%	2.20%	2.40%
Salary increases	3.50%	2.85%	3.60%	3.90%
Discount rate	2.30%	2.35%	2.40%	2.45%

Mortality assumptions at 65:

	31 March 2020		31 March 2019	
	HCAPS	**LGPS**	**HCAPS**	**LGPS**
Male – retiring today	23.0	21.8	22.9	23.4
Male – retiring in 20 years	24.4	23.2	24.4	25.0
Female – retiring today	24.8	24.4	24.7	24.8
Female – retiring in 20 years	26.6	25.8	26.5	26.6

c. Fair value of employer assets

	31 March 2020			31 March 2019		
	HCAPS	LGPS	Total	HCAPS	LGPS	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Equities - quoted	2,211	20,556	22,767	2,102	21,905	24,007
Bonds - quoted	5,391	4,757	10,148	3,743	4,110	7,853
Investment funds - quoted	1,939	-	1,939	2,267	-	2,267
Property - unquoted	-	3,318	3,318	-	2,980	2,980
Cash and cash equivalents	121	423	544	92	20	112
	9,662	**29,054**	**38,716**	**8,204**	**29,015**	**37,219**

d. Charge to net expenditure

	2019/20			2018/19
	HCAPS	LGPS	Total	Total
	£'000	£'000	£'000	£'000
Amounts charged to net operating expenditure:				
Current service costs	1,871	1,579	3,450	1,444
Past service costs	-	1,007	1,007	2
Expenses	34	24	58	13
	1,905	**2,610**	**4,515**	**1,459**
Amounts charged to finance costs:				
Interest charged to liabilities	186	861	1,047	546
Expected return on assets	(211)	(732)	(943)	(512)
	(25)	**129**	**104**	**34**
Recognised in Statement of Comprehensive Net expenditure	**1,880**	**2,739**	**4,619**	**1,493**

e. Amounts recognised in income and expenditure reserve

	2019/20			2018/19
	HCAPS	LGPS	Total	Total
	£'000	£'000	£'000	£'000
Actuarial losses / (gains)	**(70)**	**(2,063)**	**(2,133)**	**2,080**

f. Reconciliation of fair value of employer assets

	HCAPS £'000	LGPS £'000	Total £'000
Fair value of employer assets as at 1 April 2019	**8,204**	**29,015**	**37,219**
Expected return on assets	211	732	943
Contributions by member	275	431	706
Contributions by employer	1,100	1,373	2,473
Actuarial gains	63	(2,397)	(2,334)
Expenses	(34)	(24)	(58)
Insurance premiums for risk benefits	(7)	-	(7)
Benefits paid	(150)	(76)	(226)
Fair value of employer assets as at 31 March 2020	**9,662**	**29,054**	**38,716**

g. Reconciliation of defined benefit obligation

	HCAPS £'000	LGPS £'000	Total £'000
Opening defined benefit obligation as at 2019	**7,840**	**34,849**	**42,689**
Current service cost	1,871	1,579	3,450
Past service costs	-	1,007	1,007
Interest costs	186	861	1,047
Contributions by members	275	431	706
Insurance premiums for risk benefits	(7)	-	(7)
Actuarial losses/(gains) – demographic	-	(1,326)	(1,326)
Actuarial losses/(gains) – financial	185	(4,767)	(4,582)
Actuarial losses/(gains) – effect of experience	(192)	1,633	1,441
Benefits paid	(150)	(76)	(226)
Defined benefit obligations as at 31 March 2020	**10,008**	**34,191**	**44,199**

h. Sensitivity analysis as at 31 March 2020

The primary assumptions used in calculating the defined benefit obligation are: discount rate; salary increases; inflation and pension increases; and mortality expectations. The assumptions used are detailed in Note (b) above.

The assumptions are determined by independent professional actuaries whose work is compliant with Technical Accounting Standard 100: Principles for Technical Actuarial Work as issued by the Financial Reporting Council. IAS 19 sets out the principles underlying the setting of assumptions, that they should be based on the best estimate of future experience. Assumptions should also reflect market conditions at the reporting date, including demographic assumptions and the mix of membership.

The key assumptions are considered to be the discount rate and the rate of future inflation. The discount rate is important in determining the value of liabilities and is based on high quality (i.e. AA) corporate bonds at the year end. Inflation expectations inform the rate at which current and future pensioner benefits accrue based on CPI. Demographic assumptions, including mortality expectations can also have a bearing on the valuation of liabilities, as can the specific membership mix of our schemes.

The defined benefit obligation has the following sensitivities to the assumptions used:

Adjustment to discount rate	**+0.25%** £'000	**Current** £'000	**-0.25%** £'000
Present value of total obligation	41,758	44,199	46,802
Movement	(2,441)	-	2,603

Adjustment to inflation	**+0.25%** £'000	**Current** £'000	**-0.25%** £'000
Present value of total obligation	46,302	44,199	42,236
Movement	2,103	-	(1,963)

Adjustment to life expectancy	**+1 year** £'000	**Current** £'000	**-1 year** £'000
Present value of total obligation	45,569	44,199	42,861
Movement	1,370	-	(1,338)

i. Expected future cash flows

The expected employer pension contribution for the year to 31 March 2021 is:

	HCAPS £'000	LGPS £'000	Total £'000
Expected employer contribution	1,464	1,260	2,724

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 24 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.

HCAPS use asset-liability matching strategies to hedge interest and inflation risk through liability driven investments and derivatives. LGPS does not use any explicit asset-liability matching strategy.

As both schemes are multi-employer, there is an orphan liability risk where employers leave either scheme but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers if this is not funded by the exiting employer.

14. Financial instruments and related risks

In accordance with FReM and IFRS 7, the regulator's accounts must disclose material 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 13.

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. The regulator maintains surplus funds within instant access accounts which totalled £10,726k at 31 March 2020. Liquidity risk is not considered significant.

16. Events after the reporting period

There have been no 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

Robert Jenrick.

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

Date: 25 September 2019

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