



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE

Wednesday 9 December 2015

Wednesday 9 December 2015

CONTENTS

Col.

| | |
|--|----------|
| SCOTTISH HOUSING REGULATOR ANNUAL REPORT AND ACCOUNTS 2014-15 | 1 |
|--|----------|

INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE
26th Meeting 2015, Session 4

CONVENER

*Jim Eadie (Edinburgh Southern) (SNP)

DEPUTY CONVENER

*Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP)

COMMITTEE MEMBERS

*Clare Adamson (Central Scotland) (SNP)

*Alex Johnstone (North East Scotland) (Con)

*Mike MacKenzie (Highlands and Islands) (SNP)

Siobhan McMahon (Central Scotland) (Lab)

*David Stewart (Highlands and Islands) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Kay Blair (Scottish Housing Regulator)

Michael Cameron (Scottish Housing Regulator)

CLERK TO THE COMMITTEE

Steve Farrell

LOCATION

The Adam Smith Room (CR5)

Scottish Parliament

Infrastructure and Capital Investment Committee

Wednesday 9 December 2015

[The Convener opened the meeting at 10:00]

Scottish Housing Regulator Annual Report and Accounts 2014-15

The Convener (Jim Eadie): Good morning, everyone, and welcome to the 26th meeting in 2015 of the Infrastructure and Capital Investment Committee. Everyone present is reminded to switch off mobile phones, because they affect the broadcasting system. As meeting papers are provided in digital format, tablets may be used during the meeting. Apologies for absence have been received from Siobhan McMahon.

Item 1 is the Scottish Housing Regulator's annual report and accounts for 2014-15. We will take oral evidence from Kay Blair, the chair of the Scottish Housing Regulator, and Michael Cameron, its chief executive. I welcome them both and invite Kay Blair to make a short opening statement.

Kay Blair (Scottish Housing Regulator): I thank the committee for giving us the opportunity to present our annual report for 2014-15 and an update on our work since we last met, in June. I am pleased to report that, in the year under review, we achieved all our objectives on time and on budget, with just over 50 dedicated members of staff and with good tenant outcomes as a result. It was a very challenging but good year. We will answer any questions from the committee at the end of this short opening statement.

I will start by talking about our engagement with the customers of social housing and how it impacts on our regulation. In 2014-15, we used direct feedback from tenants to shape the focus of our work. In particular, we co-produced with tenants the landlord charter reports, which I hope many of you will have seen; we used tenant feedback to direct the focus of our national analysis; and we set out our programme of thematic work around the areas that customers of social housing told us matter most. It is very important for us, as a regulator, that we listen to all our stakeholders.

In August this year, we published the second year's information from landlords on their charter performance. We provided tenants, among others,

with even better information on how their landlord is performing, including two years of comparison information. Our analysis shows that, in general, landlords are delivering modest improvements across almost all the indicators. Most encouraging, those landlords with the most room for improvement have improved the most, which is what we particularly wanted to see.

We will publish our next full national analysis early in 2016, and I hope that all members of the committee will be able to attend our launch event for the report in February. I believe that invitations have already gone out, so I hope that they are in your email inbox somewhere.

I hope that you have had the chance to use our comparison tool to look at the performance of particular landlords in which you may be interested. We received very positive feedback from tenants on how empowering the tool is, and we are pleased that other organisations are using the data that we have published to analyse—and, most important, to benchmark—landlords' performance.

Last month, we published the report on our national thematic inquiry on Gypsy Travellers. I hope that many of you will have seen it. We presented the report to your colleagues on the Equal Opportunities Committee, and we will be happy to tell you more about it later.

After concluding our annual regulatory risk assessment in March, we published new regulation plans for 65 registered social landlords. We updated those plans throughout the year to reflect our engagement. We also contributed to the local scrutiny plans that were published by Audit Scotland, and we set out our scrutiny in 23 councils. In June, we published information on how we assess risk, and in November we published information on the risks, issues and challenges that we will consider in our next annual risk assessment of all social landlords.

We have listened and responded to our stakeholders' feedback on where and how we can be even more transparent. I would like to highlight in particular our publication series entitled "How we work", which explains what we do and how we do it and uses very plain English to help with clarity. I also highlight our discussion-paper approach to developing our appeals proposals. It was an innovation for us to issue a discussion paper before consultation, but that was very helpful in leading to huge and constructive engagement with all sorts of stakeholders including tenants, landlords and funders.

Another important area of our work is our on-going dialogue with lenders throughout the United Kingdom to help to maintain confidence in this key sector. A key part of our work is ensuring that

lenders are on board and that they understand the sector and the risks. We are streamlining our regulatory requirements of landlords, as we have always said that we are keen to do. We appreciate that regulation has a cost, and we are keen to make it simpler and more effective and to streamline it wherever possible.

We have hosted very productive round-table discussions on value for money and on risk issues and opportunities in the sector. We have also continued our statutory action in two RSLs: Wellhouse Housing Association and Muirhouse Housing Association. I encourage members to read the recently published regulation plans for those organisations, which explain our current engagement. Good progress has been made by both landlords and, yesterday, we ended the statutory appointment of the special manager at Muirhouse Housing Association. We will continue to support both landlords as they put right what has gone wrong in their organisations and make further improvements.

We will go live with our new appeals process in April 2016. As I said, we worked with our stakeholders during September and October, and that early discussion with interested parties has allowed us to issue a consultation document that already captures many of our stakeholders' views. Formal consultation on our proposals will run until January. We remain committed to an appeals mechanism that is transparent, accessible, proportionate and cost effective, and that is balanced with the need for us to act swiftly where necessary to protect the interests of tenants and others.

You may recall that, in June, we had an interesting discussion about the interest savings that our effective regulation ensures. I explored that further with the lenders after the meeting and reported back to the committee that lenders estimate the value of our savings in interest rate charges at between £30 million and £80 million per year. Using a conservative estimate of £40 million, that is 10 times our current annual budget and is equivalent to 40 per cent of the sector's net surplus. It provides sufficient equity to allow RSLs to build around 800 new homes each year.

I will be very pleased to provide more information in any of those areas or in any others that the committee may wish to discuss.

The Convener: Thank you, Ms Blair. I will kick off our questions by asking you to update the committee on how you have been improving communication with stakeholders.

Kay Blair: Communication is an area that is very dear to our heart. We have always said that we are a listening organisation and that we want to

take on board feedback to help us to improve our own standards. We have a continued and increased focus on our language and tone, our transparency and our effectiveness. We published an information guide on how we work and how we assess risk, giving information about how we operate so that everyone can understand what we do and how we do it.

In July, we published an update of "Governance Matters", which is a very positive document. It highlights not only where things have gone wrong but how they have been addressed and how better outcomes are being delivered. I get a huge amount of positive, constructive feedback about the value of those publications from the stakeholders that I meet. They tell me how they use "Performance Matters" and "Governance Matters" to check how their organisations are doing, to see what lessons they can learn from the case studies and to find tools that they might use to put things right in their organisations.

In relation to transparency, there has been a huge focus on effective communication, and we are getting much more positive feedback about tone, content and so on.

The Convener: You said that you have a particular focus on language and tone and that, overall, you have received positive feedback from stakeholders. However, one stakeholder, the Scottish Federation of Housing Associations, has suggested that there is still a negative tone in some of the regulator's publications, such as "Governance Matters", and that good practice should be highlighted more. Do you have any sympathy with that assessment? Are you continuing to work to improve that?

Kay Blair: I am always keen to listen to feedback, and we will obviously discuss the matter further with the SFHA. I am very disappointed by its comments, because I think that we have put huge focus behind our work. The latest "Governance Matters" is a very positive publication and, as I said, I have personally had hugely constructive feedback about it. I will take the SFHA's view on board, but I am disappointed. I think that an organisation such as the SFHA could join us in doing more to share good practice and encourage good leadership across the sector. We will discuss those issues with it as well as areas in which we might both improve.

The Convener: You have regular meetings with the SFHA at quite a high, strategic level. Are you surprised that there still seems to be a gap in understanding between the two organisations?

Kay Blair: I am surprised, and I will raise the matter with the SFHA. It is disappointing. Perhaps I will direct it to our July publication again, to see whether that accurately reflects its views.

The Convener: Okay. I do not want to add to your disappointment, but another stakeholder, the Glasgow and West of Scotland Forum of Housing Associations, has highlighted the possibly more serious concern that much harsher language is used to describe the charter performance of housing associations even though their performance is significantly better than that of local authorities in GWSF's view. Its evidence to the committee makes that point quite extensively:

"The obvious consequence of such an approach is a sense that levels of genuine risk can be exaggerated in order to amass the desired number of Regulation Plans issued each year. There is a distinct feeling among many GWSF members that this is the case."

How do you respond to GWSF's concerns?

Kay Blair: Again, I will listen to the feedback and we will discuss it with the forum. However, again, I am disappointed by the response. I do not think that we are less critical of councils; the local authority approach is a reflection of our shared risk assessment with our other scrutiny partners. We still have the same exacting standards across the board as we seek continued improvement in all RSLs and raised standards in the sector.

The GWSF clearly wants to promote the achievements of many of its members, but we, as a regulator, are not involved in a competition between RSLs and local authorities; we are keen to ensure that the impact of our work is in improved outcomes. We were particularly pleased that, this year, those landlords with the most improvement to make generally showed good results. My colleague, Michael Cameron, may wish to add to that.

Michael Cameron (Scottish Housing Regulator): On the issue of potential differences in language, we reviewed the paper that the GWSF produced and our analysis showed that it was relatively selective in what it looked at. It considered just two RSLs and a small number of councils for comparison. As Kay Blair has indicated, there are differences in the final products. One is produced exclusively by the Scottish Housing Regulator and the other is a collaboration with other scrutiny bodies. Nevertheless, we will continue to look at the language that we use to ensure that it is appropriate and consistent where it should be consistent.

The Convener: Do you think that there is a level playing field in the regulator's approach to the regulation of councils and its approach to the regulation of housing associations?

Michael Cameron: Absolutely. We apply exactly the same risk assessment methodology across councils and RSLs in relation to the Scottish social housing charter.

10:15

The Convener: That is not the view of the Glasgow and West of Scotland Forum of Housing Associations, which states in its submission that

"the evidence so far is that the SHR adopts fundamentally different approaches to the assessment of Charter performance across the two sectors."

Michael Cameron: In response to that, I point to the fact that we engage directly with only a third of all registered social landlords but with 23 of the 32 local authorities. That is the reality of the nature of our risk assessment, and it is reflected in the evidence outcomes from that risk assessment.

The Convener: You believe that there is a level playing field and that there is consistency in your approach to your assessment of performance against the charter across both sectors.

Michael Cameron: Yes.

The Convener: There are no areas for serious improvement.

Michael Cameron: There are areas for improvement in relation to landlords' performance against the charter. We will take a consistent approach to our assessment of risk in relation to the charter this year, as we did last year. In November, we published the basis on which we will undertake that risk assessment and the key areas on which we will focus. We set out clearly how we will undertake that assessment in relation to both RSLs and local authorities.

The Convener: Okay. I will leave it there and move on to the appeals process. Ms Blair, you said that the appeals process is on track to be launched in April 2016. Can you update the committee on the work that you have been undertaking to develop the appeals mechanism? What are the main aspects of the proposed appeals process?

Kay Blair: As I said, we took the novel approach of first producing a discussion paper. We then engaged with all our stakeholders, tenant organisations, the SFHA and the forum to make sure that we understood their perspective and that we took their views into account.

We are very keen for any appeals process to be transparent, accessible, proportionate and cost effective. We need to strike the right balance to ensure that we are still effective as a regulator. Appeals cannot compromise our ability to use evidence-based judgment to make regulatory decisions, nor should they hamper our ability to intervene if tenants' interests are compromised. We are also aware of how keen lenders are to make sure that we can act appropriately in order to maintain their confidence.

We proposed a two-stage consultation process. There will be an informal review process whereby anybody will be able to approach us for an informal review and there will be a much more formal appeals process. We are looking at how far we can go within the current legislation. We have engaged extensively and we have issued the consultation paper. At the moment, the consultation is due to end in January.

I am sure that there will be different views, but we think that we have struck the right balance in the appeals process. We are being transparent and looking to have independent input into the process, which is really important for an appeals process, but what we can do is bound by the legislation.

The Convener: You say that you are looking to have independent input into the process, but the final decision on an appeal would be for the board members to make. On appeals, the SFHA says that,

“for any process to be truly independent of SHR, legislative change would be required”.

Do you have a view on that, apart from stating the obvious?

Kay Blair: That is not within our powers. We would have to go back to the legislation and it would be up to the Government to make any change.

The Convener: Do you have a view on whether the legislation should be changed in order to make the appeals process more independent of the regulator?

Kay Blair: I think that what we have proposed strikes a good balance and should be given time to work. We should evaluate its effectiveness, but it will be a good process with independent input.

The Convener: The SFHA and the GWSF feel that the scope of the appeals mechanism should be broadened to include regulation plans and some of the non-statutory recommendations that are made by the regulator to RSLs. Do you have a view on that?

Kay Blair: Yes. Michael Cameron will comment on that.

Michael Cameron: It is important that there is proportionality in the appeals process. The regulation plans are a statement of our regulatory judgment and of the engagement that we are going to have. Where any of that engagement falls within the parameters of the appeals process, that engagement will be appealable by the particular landlord.

The regulation plans will be subject to the review process that we have set out as the first stage in the appeals framework. We think that that

strikes a reasonable balance and is a proportionate approach to take.

The Convener: Okay. We will move on.

Mike MacKenzie (Highlands and Islands (SNP): The area that I want to explore first concerns the model entitlements, payments and benefits policy. I note, with pleasure, that some progress has been made since your last appearance before the committee, and I absolutely welcome that. However, you will understand my concerns, given that I represent the Highlands and Islands, that there are continuing problems in rural areas. Can you see a way forward that will ease the concerns of rural housing associations, their members and their employees?

Michael Cameron: We were pleased to endorse the model policy that was produced by the SFHA. We think that it provides a good policy framework for landlords to adopt. It includes a level of flexibility for landlords. We have made it clear that, when a landlord adopts the model policy and applies it in practice, they should have confidence that they will be able to comply with regulatory standards.

It is open to any landlord to adopt a policy with appropriate amendments or to adopt an entirely different policy that they feel is appropriate to their circumstances. We made that clear to all landlords and emphasised the flexibility that they have, which lets them ensure that their policy is appropriate to their local circumstances. It is, of course, the responsibility of each RSL to ensure that whatever policy it adopts enables them to comply with regulatory standards.

We will not routinely engage with landlords on their policy choices in that regard; that is a matter for them. We will engage with landlords on their policy only if we have concerns or become aware of improper—or potentially improper—conduct.

Mike MacKenzie: That is all very reassuring, but do you accept the nature of the problem in rural areas, and can you offer any guidance for rural housing associations on dealing with it? Do you understand the problem and can you offer any wisdom as to how they might best deal with the problem?

Michael Cameron: We always have done that. From the outset, we have made it very clear that there is a need for flexibility, particularly in rural and island communities. We have been keen to ensure that that is built into any model policy that is developed.

We have always been clear that a comply-or-explain approach gives landlords flexibility to take account of local circumstances; we encourage landlords to do that. Their approach to adopting a

policy should be such that it gives them the necessary flexibility to take account of local circumstances. They should be able to demonstrate that by applying the policy that they adopt they are able to achieve regulatory standards.

Mike MacKenzie: Let me paint a real-life scenario for you, and I will ask you how you would react to it. Let us assume that I am a member or an employee of a housing association, and that you receive a complaint centring on my use of a contractor to build an extension to my home. That contractor also works for the same housing association. Let us suppose that, just as any normal person would, I had engaged an architect to design the extension, and that the architect had obtained planning consent and a building warrant. I had then asked him to put the work out to tender for me. Let us say that three contractors tendered, and the one that I chose happened to be £10,000 cheaper than the other two. However, that contractor also worked for the housing association with which I was associated. A complaint was made to you on the basis that I had used that contractor. How would you deal with that scenario?

Michael Cameron: We would ask the association to consider the situation and to satisfy itself that there had been no conflict of interest and that its own policies and procedures had not been compromised under the circumstances. That would be our first response. What came out of that would determine whether there was any further need for us to engage with that association.

Mike MacKenzie: Would you accept that the situation that I have described is part and parcel of the nature of the problem and that, as a regulator, you might be expected to give very clear guidance to housing associations faced with that kind of predicament on how to deal with it?

Michael Cameron: The objective of the model policy is to give associations a framework within which they can manage those situations. The framework gives a level of guidance in those circumstances. The circumstances are often particular and individual, so it is difficult to be absolutely definitive.

In the circumstances that you described, it would very much depend on the level of seniority of the officer, how involved that officer may have been in the appointment of, and award of work to, the contractor. Many factors would have to be taken into account in determining whether the situation presented a significant conflict of interest and, therefore, a conflict that needed to be managed in a particular way by the landlord. The issue is to ensure flexibility to deal with individual circumstances in a way that protects the reputation of the landlord.

Mike MacKenzie: I understand the generality of your language, but you will forgive me if I say that I am still as confused as I was at the start as to how housing associations should take the right decision regarding the type of situation that I have described. I am no wiser. However, I will move on to my next area of questioning.

The Convener: Mr Cameron, do you wish to try to clarify matters for Mr MacKenzie?

Michael Cameron: It is difficult to look at general scenarios, because there can be a lot of complexity and subtlety. Factors including who exactly the individual is and the nature of their engagement with the contractor through the association would go a long way towards determining whether there was a substantial conflict of interests.

As we have always said, there needs to be sufficient flexibility to enable landlords to access staff and governing body members, particularly in rural and island areas where there may be a very limited market. We need to ensure that flexibility while continuing to manage appropriately the conflicts of interests that can arise.

Mike MacKenzie: Thank you. Outwith the committee, I will engage further with Mr Cameron and Ms Blair to see whether we can—

Kay Blair: Perhaps I could add one thing. The SFHA has agreed that it will let the model policy run for a year. It will review it and evaluate its effectiveness, and it will consider potential areas to be strengthened. It will be discussing that with us after this year's progress.

Mike MacKenzie: I accept that. It is perfectly reasonable, and I noted that some progress has been made. What I am putting to you, however, is that there are remaining issues, of which you are aware. I hope that you would, as the regulator, be able to provide clear guidance, even using case studies, which would help housing associations and guide them in what I admit is a tricky area. However, I will move on to my next question, because I do not want to take up undue time with that issue.

How do you respond to GWSF's concerns about the high costs that housing associations can face when dealing with the consequences of regulatory engagements? What steps are you taking to increase the pool of Scotland-based consultants? That issue came up at a previous meeting.

10:30

What housing associations do—they build houses and rent them out—is hardly rocket science. I just cannot understand why there should not be a reasonable pool of suitable consultants in

Scotland to deal with the issues that you are asking be dealt with.

Kay Blair: That is a relevant question, and we have been looking at the matter. We are very aware that there is a cost when special managers go into an organisation, but that cost is because of the need for expertise and certain skills.

We are keen to see whether we can widen the base of people who are used. We are in the middle of setting up a selection panel, which we will make publicly available. It will show how contractors work and what they charge, and it will be open for others to use. We are keen that we get the right skills and expertise to do what are, at times, quite complex jobs. I know that it may be quite a simplistic business model, but there is increasing complexity in most housing associations.

Michael Cameron: We will always work to minimise the cost impact of statutory intervention, but as someone who is involved in one of the two organisations in which we have intervened put it, there is a cost to putting things right. A key consideration when we are appointing a special manager is to ensure that we regain the confidence of the people who lend to those organisations. That goes a long way towards preventing imposition of the potentially huge costs on their associations that could arise from a lender deciding to reprice. Preventing repricing can often quickly repay the costs of an intervention and, over the lifetime of a typical loan, could save the organisation millions of pounds. It must be borne in mind that that one-off investment in competent management and effective governance can help associations to avoid massive future costs.

It is also worth bearing in mind the potential for us to use other statutory powers that are perhaps more draconian, but would come at less cost, such as immediate transfer of engagements to another housing association.

On our work on statutory intervention, we will do a full lessons-learned exercise at the conclusion of those engagements. We will be looking at whether there were more cost-effective ways to achieve the desired outcome of protecting tenants' interests.

Mike MacKenzie: Thank you, but you are not quite addressing the nub of my question. Surely we have the financial, contracting, house-building and house-management expertise in Scotland? It beggars belief that we do not have that required expertise here. You seem to have to go furth of Scotland to find people with the relevant expertise. I accept that costs will always be involved; I also accept that the interventions and the assistance that are provided by consultants can help associations to avoid future costs. However, I am

struggling to accept that there is no one—or very few people—in Scotland capable of providing the consultancy guidance that you seek to provide for housing associations that need that help. Why on earth is that?

Michael Cameron: We will be doing an exercise to establish a selection panel, which will be open to all potential special managers, regardless their nationality or their base. That will, I hope, increase the number of people who may be Scotland based. You will, however, appreciate that it is not our objective to target one nationality; rather, we are conducting an exercise to ensure that we have a panel of appropriately skilled and experienced people to draw on.

Mike MacKenzie: Do you think that the expertise exists in Scotland but that, for some reason, people are reluctant to get involved? Might that be the problem?

Michael Cameron: We have used people who are based in Scotland. There are Scotland-based people who are used by associations in connection with improvements to governance and financial management.

Special managers have a particular skill set, which is needed for someone to come into a troubled organisation, stabilise it and turn it around quickly. That is a narrow field at the moment. We hope that the selection panel will ensure that we have a broader field of individuals with the right skills and experience that we can draw on.

Kay Blair: We are subject to the market, but I really hope that, by publicising the selection panel and, I hope, working with other representative bodies and taking on board their suggestions, we will widen the pool. It will make things more competitive if we have a wider pool, so we are keen to do that. At the same time, however, we must still have confidence that we have the skills and expertise to deliver.

I share your views about the potential benefits of widening the pool, but I would add some caveats about ensuring that managers will do a good job for tenants.

Mike MacKenzie: I very much hope that the next time we meet you are able to report a good-news story and some improvement.

Kay Blair: Yes.

Alex Johnstone (North East Scotland) (Con): I return to the Scottish social housing charter. I want to ask a few questions about the information that you are getting. First, what did the first analysis of all charter data show you about landlords' achievements in relation to the charter, and how does that compare with the most recent charter returns?

Kay Blair: The returns were very favourable. The services that are being delivered across Scotland have satisfaction rates among tenants of 88 per cent, which I think is enormously good. We have done a huge piece of work, and our staff are highly expert on the charter now. We note that RSLs and local authorities are finding it easy to deal with us and to input the information.

What is the biggest impact? What are we most pleased about? Tenants describe how they are kept informed by their landlords, much more so now than before. They also engage with them better. The quality of homes is good. It is very important to have safe, secure neighbourhoods and warm, well-insulated homes. Good neighbourhood management has clearly emerged as something that tenants are satisfied with. There are other opportunities for tenants to participate.

We find that tenants are using the information to go back to their landlords and to tell them that they might be doing well in one area but could be doing better in another area. They are checking the information with their peers. Our comparison tool allows tenants to choose other organisations and see how their landlords are performing in comparison, and to do some benchmarking.

There have been modest improvement across the board this year. The worst-performing landlords are making the best improvements, which is good. We will be carrying out an analysis, and we will be publishing the results in January. That is the event that I have invited you all to. We will be talking about the charter and our latest analysis of what it is doing. We think that it is doing the job that Government wanted it to do. There will be a review of it in 2017, I think, to evaluate its effectiveness and to consider other areas that we might examine.

We are keen to consider aspects such as value for money. What does the charter tell us about value for money? Are there any other indicators around that, which would be helpful for customers of social housing?

The charter has been a great piece of work. It has been a huge piece of work for our organisation. It has been really good, given the information and the power that it has given tenants and others.

Alex Johnstone: You have mentioned the positive feedback from tenants. Have you had any feedback from landlords, tenants or service users about the usefulness of the annual charter reports themselves?

Kay Blair: Yes, very much so. We are keen to take on board what all our stakeholders say and we ask them, "What is this giving you?" Landlords say that the charter is good, because they are able to be consistent in their approach. They are able

to benchmark the information, and they are able to use it to drive standards up further. That is really good. We have had very good feedback from the forum and from the SFHA about what it is doing. We have also had very good feedback from tenant organisations about how they use it, how tenants now communicate with their landlords and how emboldened they feel to ask their landlords difficult questions with that information and evidence behind them. That is really good.

Alex Johnstone: Have the reports informed you about any areas where further improvement is needed?

Kay Blair: Yes, they have done. They highlight points on quality standards and fuel poverty that we can take on board. We also check the information in them against the information that we get from the tenant panel. We now have a superb tenant panel with more than 400 people on it. They feed back on what is important and have strongly highlighted the quality of repairs services and the speed of maintenance. Each individual landlord is able to assess its own charter data and consider areas for improvement.

Alex Johnstone: How has the information in the charter reports been used to develop the risk assessment of RSLs and local authorities?

Kay Blair: That is a key area of our business and our risk assessment. We look at financial health, which is critical, as we need to ensure that all RSLs are well run and financially healthy. The second area that we consider is governance, because it is important that the organisations have effective boards and governance. We use the charter as a key input into that to ensure that the information that we get is aligned and that we examine risks and how the sector manages and mitigates them.

That is a key component of our work and it will grow. We said in this year's corporate plan that we would consider how we could get more information from the charter. It is important. It is fantastic data.

Clare Adamson (Central Scotland) (SNP): You have called for landlords to consider how to keep tenants' rents affordable. Will you comment on the response to that and how it might develop in the future?

Michael Cameron: We are conscious that most tenants' incomes fell dramatically during the economic downturn, as was the case across the board. Although there have been some indications of improvement in that regard, it is almost certainly the case that most families' incomes will take some time to get back to the levels that they were at before the crash. We are also only too aware of the challenges that those who depend on benefits face. Therefore, it is increasingly important that

rents be set in a way that enables tenants to keep paying them over the longer term.

It is a hugely complex area. Many factors need to be taken into account in determining rent levels and the affordability of rents. Not all landlords start from the same position. Some will have a level of headroom in their rents that will enable them to increase them and keep them affordable. There is also no national rent policy in Scotland. Of course, tenants could make decisions with their landlords that increase rents to ensure that there is appropriate investment in new homes and in their own homes and services.

The majority of RSLs' business plans show that they will continue to rely on rent increases at above inflation—real-terms rent increases. We will monitor that carefully for two key reasons. The first is to find out what the impact will be on tenants' continued ability to pay rent. We recognise that, if tenants are not in a position to pay rent, it not only affects them as tenants but reduces the revenue stream into landlords. At a time of low inflation, that can be a challenge for landlords too.

We are conscious that there are challenges for landlords in balancing the competing demands of maintaining rents at a level that tenants can afford to pay while being in a financially healthy position that lets them deal with the risks and continue to invest in services for their local communities. That is not an easy task. We are calling on landlords to place tenants' ability to pay at the heart of their decisions on rents. Alongside that, we want them to ensure that they rigorously pursue cost control and the delivery and achievement of value for money. Those two things go hand in hand.

10:45

Clare Adamson: Thank you for that. You mentioned tenants who rely on benefits. Have you done any substantive work on how the welfare reforms that are going through Westminster at the moment might impact on housing associations?

Michael Cameron: We did a significant piece of work in the first year of the first set of major changes. We saw some changes in the arrears levels that landlords were experiencing. To a large extent, those were then mitigated by the Scottish Government's approach to the use of discretionary housing payments.

It is still quite early to see the potential impacts of some of the other changes. We are aware of some of the impacts of the sanctions regime. Some landlords are talking about the challenges that they present for individual tenants. We are conscious that the roll-out of universal credit will present a range of issues for landlords to manage. However, at this point, it is probably too early to

say that the changes that have already been brought in have had a definite impact.

Clare Adamson: Six significant performance failures were reported to you in 2014-15. Can you give us an indication of the outcomes of those reports and how the lessons learned from the process will be used to benefit future tenants and service users?

Michael Cameron: As you say, during 2014-15, six reports were made to us by tenants who were concerned that there had been significant performance failures. The first thing that we do is assess whether reports come into the category of a significant performance failure; of those six, two were indeed significant performance failures. Since April, we have had a further report that we found to be a significant performance failure. For those reports that we were not able to determine as significant performance failures, we helped the tenants involved to take their case to the Scottish Public Services Ombudsman, who would deal with them as a complaint in those circumstances.

I should also say that we reviewed our fact sheet for tenants last year to be clear about what would constitute a significant performance failure and how tenants could bring one forward. It also shows the difference between a significant performance failure and a complaint, which would be dealt with by the ombudsman.

We look to disseminate the lessons learned from significant performance failures as widely as we can. We publish the outcomes and look to the individual landlords concerned to take forward the improvement actions that are necessary as a consequence of those and we communicate more broadly where there are wider lessons to be learned.

Clare Adamson: My final area of questioning is about something that Ms Blair said in her opening remarks about thematic inquiries. Will you expand on the inquiry into Gypsy Travellers and say how its findings are being taken forward?

Kay Blair: Absolutely. Thematic inquiries are a key piece of our work when we take a subject and drill down into it. They are very important for feeding into our risk assessment.

It was very important that we made contact with Gypsy Travellers. I am pleased to say that we have more than 40 Gypsy Travellers on our tenant panel. We are proud of that because, as I am sure you know, they are sometimes quite a difficult client group to get hold of. The Gypsy Travellers thematic inquiry was good at highlighting where there were serious weaknesses with regard to the sites, repairs and standards.

We have made various recommendations, which have been endorsed by the housing

minister, on structured rent policy setting, good standards and understanding the particular needs of Gypsy Travellers. As I said, we have reported on that very important piece of work to another parliamentary committee, and we will ensure that the recommendations are implemented, so keep an eye on that.

I will talk about some of the other thematic inquiries. Again, the work is very much driven by feedback from tenants on where they would like us to concentrate. We are looking at how open and accessible landlords are and whether they are engaging with and listening to their tenants. We are looking at how landlords carry out rent consultation and how involved tenants are in that. We are looking at how customer standards can be improved. We are looking at how complaints policies are operated within organisations and whether they are delivering. We are looking at gas safety, which is another area that we are keen to explore. We are looking at equalities, which are another important area. We are also looking at factoring, because factored owners are key service users.

We are drilling down into all those themes. I am very proud of our programme of thematic inquiries. We do not have that many people and do not have that big a budget, but we do quite a lot of that added value work, which is incredibly important for our regulatory risk assessment.

Clare Adamson: Thank you. That was very welcome. I am very interested to hear about the gas safety inquiry in particular, given that the Parliament has just noted carbon monoxide awareness week.

To go back to the Gypsy Travellers theme for a moment, when speaking to Department for Work and Pensions staff as part of my work on the Welfare Reform Committee, I heard that the DWP has not included any Gypsy Travellers in the universal credit pilot roll-outs because it considers them to be homeless. Would you agree with the DWP that Gypsy Travellers should be regarded as homeless in that respect?

Michael Cameron: I have not heard them referred to in that way. It is certainly not a way in which we would describe Gypsy Travellers. I am not aware of it being a way in which they would generally be referred to by the providers of services to Gypsy Travellers. We are very clear that they have a lifestyle that is specific to them, but I do not think that it fits the normal definitions of homelessness that are set out in statute. It is not a term that we would use in that regard.

Clare Adamson: I should caveat what I said by pointing out that that comment was made in a discussion about what types of groups were

included in universal credit. It might not be the case, and I would be concerned if it was.

The Convener: Do you have any other thematic inquiries planned?

Key Blair: Not at the moment. We have quite a big programme already with the ones that I have just listed, and we will work through them. Obviously, if something comes up during the course of the year, we will look at that.

Michael Cameron: Yes. We will use the annual risk assessment and the analysis of the charter to identify areas that might suit a thematic inquiry. We will also engage with various stakeholders, particularly the different tenant groups, to test with them whether the analysis fits with their priorities for areas that could benefit from the kind of in-depth scrutiny that we are able to do. The programme will evolve over time in response to issues that emerge.

Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP): I have a question about regulation plans. The annual report notes that regulation plans were published for around 40 per cent of all RSLs, which seems to be a really high number and a relatively high proportion. Was that a consequence of your intention to work around all RSLs? If not, why is that number so big?

Michael Cameron: I would not necessarily agree that it is a large number. We do not engage beyond normal, routine, regulatory submissions with around two thirds of all landlords. We concentrate our regulatory attention where it is needed.

The outcome of the annual risk assessment is what determines how many regulation plans we have. It is not a cycle of engagement with each landlord; that is not how we operate. Every year, we look at the information and intelligence that we have gathered, determine the risks that each landlord may present and engage with landlords in response to those risks. That is very much what drives the level of engagement and the number of regulation plans that we have.

Adam Ingram: Yes, but in relation to the number of RSLs, would you accept that 40 per cent is quite a high number to publish regulation plans for?

Michael Cameron: A number of factors need to be borne in mind when we look at that number. The first is that this is in response to risk. I think that we would all agree that the operating context for RSLs is probably more challenging than it has ever been—the risk environment has changed—which means that it is necessary for us to get an appropriate level of assurance from a number of landlords.

Also, a regulation plan is not in itself an assessment of performance. For example, we will have a regulation plan with some of the best performing organisations, because they are systemically important—they have large development programmes or a significant level of borrowing or there are other reasons that make it necessary for us to run closer with them to properly understand their business model and the risks that might be present. That is another factor to bear in mind. Given all that, I would say that our level of engagement is appropriate.

Adam Ingram: Would you anticipate that the number of regulation plans will reduce over time, given that you are now much more knowledgeable about each RSL and its circumstances?

Michael Cameron: That will depend on the risks. As I say, we are a risk-based regulator—we assess the risks. If there are new or increasing risks, we might have to have a higher level of engagement with landlords. Equally, though, if the environment becomes less risky or more benign, I would expect to see a reduction in the number of regulation plans. It is very much driven by the risk assessment.

Adam Ingram: What is your forecast for the forthcoming year?

Michael Cameron: There is still a significant number of risks in the environment. We have set out, in a publication that we put into the public domain last month, the range of risks that we feel are still relevant. Some of those may increase over time and some may decrease. Throughout the year, as we engage with landlords, we may very well change our engagement level in response both to changing risk and to the assurance that we can get from individual landlords. It is not a static thing.

At the moment, I do not see any immediate prospects of a significant reduction in the risk levels in the RSL sector, so I would not necessarily anticipate any dramatic change in the annual risk assessment that we are now undertaking. However, we will undertake that assessment in a very agile way to ensure that, should there be any significant changes in that risk environment, we can respond to that.

Kay Blair: I would add that it is difficult to put a number on it at this stage because, as Michael Cameron has said, it is very much to do with our very comprehensive risk analysis. There are lots of increasing risks around things such as pension funding and technical issues such as financial report standard 102. There are lots of issues that are coming and there is more complexity in the sector. We have to be absolutely on top of that to ensure that tenants' assets and interests are protected, which is our sole statutory objective. I

would love to be able to say that, next year, the figure will be only 20 per cent because the risks have subsided, but I do not think that that will be the case. We are in a very difficult economic environment. With the regulation plans, we are keen to work with RSLs and to be agile and to lower or heighten the criteria, as we see fit at the time.

The Convener: Mike MacKenzie has a short supplementary question.

11:00

Mike MacKenzie: We have heard concerns expressed by housing associations that the SHR is unduly risk averse, particularly with regard to innovative practices that housing associations would like to take forward. They feel that huge benefits can be gained from those, but that your risk-averse approach militates against that. How do you get that balance right?

Kay Blair: It is, again, disappointing to hear that. In every such situation, we look at the business case for the innovation. There is good innovation, but sometimes there is bad innovation. We have to ensure that proposals are stable and safe and will deliver good outcomes. We look at every individual case on its merits. However, we always welcome good innovation that actually delivers for tenants. We would like to speak to any RSL that has the view that you mentioned and to discuss that with them. We are just keen to ensure that the sector remains financially healthy and stable, and that it attracts good lending rates.

I hope that that answers your question. I ask Michael Cameron whether he has anything to add.

Michael Cameron: I have said before, including perhaps at the committee, that we can all agree that RSLs have been among the most innovative organisations operating in Scotland as social enterprises. They have been doing that in a context in which they have been regulated in one form or another for more than 30 years. Therefore, you will not be surprised to hear that I do not buy the assertion that good regulation inhibits good innovation. There are organisations out there doing incredibly innovative stuff while being effectively regulated. Our approach is very much about ensuring that the interests of tenants and other service users are protected and enhanced when any innovation comes forward. We regularly engage with landlords who bring forward innovative proposals and then put those proposals into practice.

Mike MacKenzie: Thank you: I agree with you.

The Convener: That was a short supplementary question.

Adam Ingram: In the past year you have had to use your statutory intervention powers with two RSLs: Muirhouse Housing Association and Wellhouse Housing Association. Can you update us on the outcomes?

Michael Cameron: It is probably worth restating that statutory intervention is always a last resort for us. We intervene only if we cannot get the necessary assurance of improvements in any other way. Both those interventions began last December. They were made on different bases—one related to governance concerns and the other related to financial health concerns.

As Kay Blair mentioned in her opening remarks, we published a revised regulation plan yesterday for Muirhouse Housing Association, which indicates that we have been able to end the statutory appointment of the manager. We are keeping on the statutory appointees to the board for a bit longer to help the organisation to address further a range of governance issues and improvements. However, that is a good outcome and it reflects well on the governing body of Muirhouse, which has worked constructively with the statutory manager to address its shortcomings.

There is good news across both statutory interventions, which are successfully resolving the issues that were identified at the outset. We will continue for a time with the statutory appointment at Wellhouse Housing Association because there are a number of things still to work through there, but we will review that in the new year. I absolutely encourage the committee to engage directly with those two associations to understand their experience of the intervention. We will publish a full report on each when the interventions have been concluded.

Adam Ingram: Do you anticipate using those powers regularly or frequently? Can you make a judgment on that?

Michael Cameron: In the four years of our existence, we have used the powers only with those two organisations. It is difficult to anticipate circumstances in which the need to use the powers will arise. Nothing in our current assessment of organisations immediately tells us that we have to intervene in that way. We would make use of the powers in response to specific risks and issues as they arose.

The Convener: Obviously, the regulator's role is to safeguard and promote the interests of tenants, as the witnesses have said on a number of occasions. Just to aid the committee's understanding of the statutory intervention powers that have been invoked in the case of those two housing associations, what would have been the consequences for tenants had you not intervened in that way?

Michael Cameron: The consequences would have been different in each case. As I said, the issues were very different. Ultimately, it was clear to us that tenants' interests were at risk. In one of the organisations there was a serious risk of insolvency, which obviously would have immediately put tenants' security of tenure at risk. That was why we felt it appropriate to move quickly to intervene with the use of those significant powers.

In the other organisation, the concern was that the range of governance and management weaknesses was such that, if they were not addressed quickly, they would very quickly start to impact on tenants' interests and on the broader reputation of the RSL sector.

Adam Ingram: Will you provide further details on the revised regulatory guidance that you have developed? In particular, will you comment on how that guidance addresses the issue of proportionality, which has been a concern for stakeholders?

Kay Blair: We took a great deal of time to engage with stakeholders on that and to get feedback about what would be helpful and where we could clarify issues and give greater understanding and information. At the end of that, in August, we produced revised regulatory guidance. That has streamlined a lot of the information requirements and made things a lot clearer. We have had strong endorsement from the sector of how useful the guidance now is. We are now looking at how implementation goes. As I have often said, I am keen that, wherever we can, we streamline what we do and make it easier for landlords to use and understand the information. We have taken a good step forward that has been welcomed by the sector, although obviously we will keep an eye on that to see whether further improvements can be made. It has been a good initiative.

Adam Ingram: Have you had feedback from stakeholders to that effect?

Kay Blair: Very much so—we have had very positive feedback about how the initiative is working. That is a reflection of how much we engaged with people before we produced the guidance, to ensure that it was what was needed and met our requirements.

David Stewart (Highlands and Islands) (Lab): I have a series of questions on finance. My general question is this: how would you assess the financial health of RSLs?

Kay Blair: I think that RSLs' financial health is good. There are healthy surpluses and there is a strong cash position. The lending community views the social housing sector very positively. There is lots of input from the lending community,

which is keen to get involved, to look at our regulatory judgments and guidance and to use that to provide confidence and comfort. I talked about the work that we had followed up to see how much was actually saved in the sector because of good regulation.

However, the issue is not just about monetary value; it is also about how the social housing sector is viewed in Scotland and how important it is. In terms of financial health, there is a good story to tell. Long may that remain the case.

David Stewart: I would like to raise the issue of threats. It is good to hear that there is a positive story to tell, but there was mention of a case in which there was a risk of insolvency. I do not know whether you can talk about the details of that case, but perhaps you can address the issue in general. How would a housing association end up in a position in which it could go bust?

Michael Cameron: In our experience—we have had to handle a number of organisations that have got close to real financial difficulty—it tends to be not the wider environment that creates the problems but decision-making within the organisation itself. Decision making without the appropriate governance oversight has tended to take organisations to a place in which their finances are in jeopardy. That has been a significant finding from a range of the “Governance Matters” publications that we have put out. The issues tend to be specific to the organisation.

David Stewart: Is it about chronic poor management, weaknesses in boards, lack of leadership on the part of the chief executive and so on?

Michael Cameron: The cause could be any of those factors, as well as factors such as lack of appreciation of what the organisation is getting into or lack of experience of managing new ventures and initiatives. Those factors can end up with the organisation being put at risk, often without anyone being aware that that is what is happening. It tends to be such organisation-specific issues that result in financial challenges, rather than more global ones.

We are seeing more challenges coming from those areas. Kay Blair mentioned earlier the introduction of financial reporting standard 102, which has the potential to significantly change the reported financial position of a number of landlords. Pension liabilities and deficits are other factors that we have been concerned about for a number of years. We are starting to hear some encouraging noises in that regard. The types of challenges that will come through welfare reform are more systemic. All landlords will need to have an eye on those issues in terms of how they manage their financial health.

David Stewart: Even the strongest organisations can have problems with pensions; many large organisations have massive pension deficits. That has not necessarily happened because of poor management—it is just the nature of the beast.

Michael Cameron: That is often a legacy issue of a pension scheme that has been initiated a number of years previously. What is critically important is how the liabilities are managed and future liabilities limited.

David Stewart: I would like to talk about other threats. In the private sector, there is always a concern about interest rates. You would need to be the Brahan Seer to work out what the interest rates will be next year, but the Bank of England has talked about the rates for some time and, as you know, the situation has remained fairly stable. Would a dramatic change in interest rates be a shock to the sector, in the emotional sense of the word and with regard to the effect on the balance sheet?

Michael Cameron: It would be a shock. At the moment, landlords are enjoying historically low interest rates, and many of them guard those interest rates very dearly, for obvious reasons. That is why it is crucial that landlords ensure that they have a good relationship with their lender and that they are managing their lending covenants effectively. A significant increase in interest rates would have a dramatic impact on the surplus position that Kay Blair mentioned. We encourage landlords to consider that issue in terms of their financial and business planning, and we suggest that they run scenarios and stress test their business plans to ensure that they understand what types of change in that environment would lead to difficulties for them, so that they can put in place actions to mitigate the impact of any sort of systemic shock.

11:15

David Stewart: The other issue that I wanted to raise is to do with the new proposals that are going ahead with the Wheatley Housing Group, which are allowing it to raise £250 million by issuing an AA-rated public listed bond. That is very interesting. Can you just go through the various decision-making chains on that?

As you know, the Scottish Government had only marginal powers of finance until the Smith commission proposals, but this is a real change. I notice that the SHR approved that bond finance, and I presume that the Scottish Government had a decision-making role as well. If that is the case, what potential is there for every housing association to issue that type of bond? It is a

fantastic opportunity to increase the supply of affordable housing.

Michael Cameron: The Wheatley Housing Group issued a bond to the tune of £250 million. It then went fairly quickly for a further tap of £50 million, so it currently has an own-name bond to the value of £300 million.

The Scottish Government, as I understand it, supported the Wheatley Housing Group in that endeavour and part of the package that related to the bond also involved a level of grant-funding from the Scottish Government. The SHR's role was twofold. First, we met the relevant ratings agencies that are instrumental in ensuring that an organisation is in a position to go to the capital markets. We met them to help them to understand our approach to regulation and what that would mean with regard to the confidence that investors could feel about our role in relation to the Wheatley Housing Group and other social landlords in Scotland.

The consent that we were then involved in was the consent that is required to dispose of assets by standard security in any lending. That followed full consideration of the business case that was presented to us by the Wheatley Housing Group.

As regards capacity to use that model more widely, substantial costs and significant preparation are involved in going to market for an own-name bond, which may mean that only the larger organisations would be in a position to do it. It may not be practical for smaller organisations to take that particular road—

David Stewart: I am sorry to interrupt, Mr Cameron, but in crude terms, where would you say the cut-off point is? What would be the minimum turnover of a housing association in order for it to be eligible for bond funding?

Michael Cameron: I do not think that we could put a particular number on that because it would depend on a number of things. One of the things that I was going to say is that there are some other routes that landlords can take. For example, last year, Link Group had a private placement for £45 million which—for it—was a more appropriate and manageable approach to take.

There are a number of bond aggregators operating in Scotland, including the Housing Finance Corporation and GB Social Housing. Smaller organisations can access capital markets through those aggregators. A number of routes and options are open to social landlords. It is also worth saying that we are continuing to see a relatively healthy market in the traditional lending arena.

David Stewart: I mentioned threats and risks. Are there greater risks in going down such a route?

Michael Cameron: There may be different risks. There can be treasury management challenges with a bond in which there are multiple investors, compared to engaging directly with one lender and having a clear relationship. A bond also results in the body getting that lump sum early on, so it then needs to manage that money effectively. In traditional lending, the money is drawn down as it is needed. There are a number of different challenges and risks in the bond model—whether they are necessarily greater is another question.

David Stewart: Indeed. I suppose that that goes back to the earlier point about how strong the board and the chief executive are. There might be an impact if the matter is more complex and the organisation is weaker.

I do not have time to talk about the wider economic issues, but there was mention of the bond being AA-rated. I was going to make the larger point that Lehman Brothers in America had AAA-rated collateralised bond obligations and that that started the world economic crisis. As far as credit agencies are concerned, it is a question of who guards the guards. I simply make the general point that we should be a bit careful about how we treat AAA-rated or AA-rated bonds, but that is perhaps an issue for another day.

The Convener: Mr Cameron, am I right in thinking that you said that going down that route comes with a significant cost for the larger RSLs?

Michael Cameron: Yes.

The Convener: Do you have any indication of what the ratio of those costs to the amount secured through loans would be?

Michael Cameron: I do not have that information, but I can see whether I can obtain it for the committee.

The Convener: Okay. That would be helpful.

David Stewart: The convener has made a very useful point. It is clear that people would need to be careful about the contingency funding that they had if they went down that particular route.

I will touch on Office for National Statistics classifications later. I know that the issue is a bit technical, but it is important that we get things clear.

Does the £250 million, which I think you said was raised to £350 million, technically count against Scottish Government capital spending?

Michael Cameron: No.

David Stewart: Is it entirely separate?

Michael Cameron: Yes.

David Stewart: Okay. That is useful to know.

The Council of Mortgage Lenders has highlighted high levels of investor confidence in the social housing sector and its support for the level of regulation that is carried out by your organisation. Does that correspond with what you have seen across the sector?

Michael Cameron: Yes. I think that lenders' confidence levels remain high in respect of Scottish landlords. Obviously, it will be interesting to see whether the Scottish context becomes a more attractive investment proposition than elsewhere in the UK, given the very significant changes that are happening elsewhere. Lenders could very well view Scotland as a more benign investment environment, notwithstanding that there could obviously be further changes in the Scottish context, too.

David Stewart: I apologise for my next point being a bit technical, but I am highly concerned about the Office for National Statistics reclassification of housing associations. As you might know, we had to address a similar issue with the Harbours (Scotland) Bill. Large harbours were going to be reclassified, which basically would have meant that any spending done by the likes of Peterhead or Aberdeen, with its massive investment in Nigg, would have counted against Government spending. That would be absolutely disastrous for the management of the economy and the harbours themselves.

In England, reclassification is likely to happen for housing associations, which would result in housing association spending counting as national debt. That would mean a £60 billion or 4 per cent increase in the national debt, which would be a massive problem if it applied to Scotland, too. Going back to my earlier point, bond spending could well count against national debt in Scotland. What is your view on that? Is that likely to happen?

Michael Cameron: We know that, as you have said, the Office for National Statistics has announced that housing associations in England are being reclassified as public corporations, which means that the nearly £60 billion of debt that they have will feature on the Government's books as public sector debt. The basis for the change as set out by the ONS was that the UK Government, through the English regulator, the Homes and Communities Agency, has control over associations through the regulatory powers that are vested in that agency, particularly around consents for disposals, directing the use of proceeds from disposals, voluntary winding-up, dissolution, restructuring and appointment of managers. Such powers were seen as giving the

Government control over those organisations and therefore merited the reclassification. The implications beyond the understanding that such a move puts that debt on to the public books remain quite vague for individual landlords, although there is a sense that any subsequent borrowing by those organisations might very well need some form of Government approval, as it would count towards public debt.

We are aware that the Westminster Government has vowed to take associations in England back out of that classification by changing the HCA's regulatory powers. To date, the ONS has given no indication of plans for a similar review in Scotland and at this time there are no direct implications of the decision for Scottish RSLs. It very much depends on the ONS plans and I have no insight into them.

David Stewart: The committee might want to pursue that issue, because I would have thought that, if this is happening in England, it would happen in Scotland—I cannot see Scotland being excluded.

As I said earlier, the reclassification applied to harbours until the Scottish Government changed the legislation, and I understand that it also applies to lots of colleges in Scotland. We are not going to be exempt from this, but if it was going to happen, I presume that there would be opportunities for the Government to change some of the regulatory regime in Scotland. I do not want to get ahead of myself but I will say that it would be quite damaging if it happened in Scotland, because it might affect Government spending on housing associations and how they are managed.

Kay Blair: I agree. What is happening in England is quite worrying, and as the regulator here, we are keeping a close eye on it. We are also keeping a close eye on English RSLs that are operating in Scotland and whether there is any impact on their activities. I assure you that we understand your concerns and are keeping an active eye on the situation.

The Convener: The SHR published its new corporate plan for the period 2015 to 2018 in April and its annual work plan in May. What are the key features of the new corporate plan?

Kay Blair: Again, we are being consistent in that we are looking at the priorities of financial health and good governance. The conversation today has often come back to the strengths, expertise and capabilities of boards and the decisions that they make and, given the sector's complexity and its increasing diversity, we are keen to keep an eye on that matter.

The final priority is the charter on service delivery and the incredibly important information that that gives us. We want to help tenants

scrutinise performance, and we want to give landlords comfort through benchmarking their organisations.

Our corporate plan very much stresses the more challenging environment that we are in. We are therefore looking at risk, being proportionate and effective in our approach and examining issues such as rent affordability and the sustainability of the sector. It is a very important sector.

I hope that that answers your question.

The Convener: It does. Mr Cameron, do you have anything to add?

Michael Cameron: In our corporate plan, we have set out a commitment to undertake a full review of the regulatory framework, kicking off in 2017. We will take the approach that we took with appeals and initiate the review with a discussion paper before moving into any kind of formal consultation, and there will be opportunities to review the continued relevance and appropriateness of all our regulatory approaches. That is our commitment.

The Convener: I see that there are no further questions from members. Do the witnesses have any closing remarks?

Kay Blair: Thank you very much for your scrutiny. It is important that we are accountable and that we can answer your questions effectively and give you confidence that we are doing a good job as a regulator. One of the upcoming challenges for us, as for all public bodies, will be the spending review. We are keen to be able to maintain the resources that we have and deliver effective regulation. We think that we add value through what we do, and like, I am sure, a lot of other bodies, we await with some trepidation the results of the spending review.

The Convener: You are not alone in that.

Kay Blair: I hope that we have assured the committee about our performance.

The Convener: Thank you. Given that the SHR is in an almost unique position of being independent of Government and having its lines of accountability go through this committee to Parliament, we are conscious of the importance of holding it to account. We value your attendance this morning and the evidence that you have given to the committee.

Once again, I thank Kay Blair and Michael Cameron for their evidence. That concludes today's business.

Meeting closed at 11:30.

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

Published in Edinburgh by the Scottish Parliamentary Corporate Body

All documents are available on
the Scottish Parliament website at:

www.scottish.parliament.uk

Information on non-endorsed print suppliers
Is available here:

www.scottish.parliament.uk/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000

Textphone: 0800 092 7100

Email: sp.info@scottish.parliament.uk
