

EXECUTIVE NOTE

The Registered Social Landlords Accounting Requirements (Scotland) Order 2007 SSI/2007/165

1. The above Order was made in exercise of the powers conferred by schedule 7, paragraph 13 of the Housing (Scotland) Act 2001. The Order is subject to negative resolution procedure.

Policy Objectives

2. The purpose of the Order is to lay down the accounting and information disclosure requirements for all Scottish registered social landlords (RSLs) whether they are industrial & provident societies or companies.

3. These requirements were previously laid down in the Registered Housing Associations (Accounting Requirements)(Scotland) Order 1999 (the 1999 Order). Updates are required from time to time and the new Order will be effective for accounting periods commencing on or after 1st April 2007. It revokes the 1999 Order for accounting periods commencing on or after that date.

4. RSLs must also prepare their accounts in accordance with accounting standards and the RSL statement of recommended practice. In recent years there have been substantial changes to the accounting framework and the new Order has been drafted to take account of these changes.

5. A number of RSLs are also charities and some of the disclosure requirements have been amended to be consistent with the charities sector.

6. Since 2002, RSLs have been required to submit an additional return with their accounts to the regulator. This return gives detailed information about the diverse activities that RSLs are now involved in. The new Order requires this information to be disclosed in the accounts and this will improve transparency to stakeholders and the general public. It will also remove the requirement for RSLs to submit an additional return to the regulator.

Consultation

7. The proposals for the Accounting Order were the subject of a consultation exercise from 8 Nov 2006 to 23 January 2007. The consultation involved a range of key stakeholders including RSLs, RSL auditors, professional accountancy bodies, other regulators and the Scottish Federation of Housing Associations (SFHA), the RSLs' representative body.

8. In addition, we held discussions with a working group made up of RSL accountants and auditors and a representative from the SFHA to agree the proposals.

Financial Effects

9. There will be some training expenses as RSLs and their auditors familiarise themselves with the updated accounting information and disclosure requirements. A Regulatory Impact Assessment has been prepared.

Communities Scotland
March 2007

The Registered Social Landlords Accounting Requirements (Scotland) Order 2007 – SSI/2007/165 Regulatory Impact Assessment

This Regulatory Impact Assessment (RIA) aims to provide information on the options considered in relation to the accounting order (Order) for registered social landlords (RSLs) operating in Scotland, and their likely impact on the RSL sector. Under Scottish Cabinet rules, any piece of legislation that creates or extends a regulatory regime must include a consideration of the impact of regulation on the relevant sector.

Purpose and intended effect of the Order

The Objective

The Order will advise Scottish RSLs of their accounting information and disclosure requirements for periods of account commencing on or after 01 April 2007.

The Background

The accounting framework for RSLs is laid down by legislation and accounting standards. Updates are required from time to time to ensure that legislation and accounting standards provide a robust framework that is fit for purpose. An accounting Order has been in force for Scottish RSLs that advises RSL of their accounting information and disclosure requirements.

This Order was issued in 1999 and, as a result of changes that have taken place, a new Order was required.

Rationale for government intervention

Scottish Ministers have the authority, by order, to determine accounting requirements for RSLs in terms of schedule 7, paragraph 13(1) of the Housing (Scotland) Act 2001.

The majority of RSLs in Scotland are industrial & provident (I&P) societies. A small number of RSLs are companies limited by guarantee. I&P legislation is not prescriptive about the detail and format of accounts; companies legislation is prescriptive.

The Order prescribes accounting information and disclosure requirements for all Scottish RSLs. As a result, all RSL accounts are prepared in a consistent format which is beneficial for users of the accounts. Users include lenders, regulators and others with an interest in RSLs.

Risk assessment

Updating the accounting requirements for RSLs will ensure that their accounts continue to be prepared in a consistent format, contain similar information, and are compatible with the broader accounting and legislative framework.

Consultation

The proposals for the Accounting Order were the subject of a consultation exercise from 08 November 2006 to 23 January 2006. The consultation involved a range of key stakeholders including RSLs, RSL auditors, professional accountancy bodies, other regulators and the Scottish Federation of Housing Associations (SFHA), the RSLs' representative body.

In addition, we held discussions with a working group made up of RSL accountants and auditors and a representative from the SFHA to agree the proposals.

The responses and a summary will be published on Communities Scotland's website at www.communitiesscotland.gov.uk

The summary of responses will include an outline of the changes we made following the consultation that have been included in the Order laid before Parliament.

Options

Option 1: Do nothing

This was not a viable option as the previous Accounting Order was out of date and was not in line with primary legislation, accounting standards and regulatory requirements.

Option 2: Introduce a new Order to replace the 1999 Accounting Order

This option would ensure that RSL accounts continue to be prepared in a consistent format, contain similar information, and are compatible with the broader accounting and legislative framework.

Sectors affected

All Scottish social landlords that are registered with Communities Scotland on behalf of Scottish Ministers are affected by the introduction of this Order. This is the same group of organisations who were bound by the 1999 Accounting Order and includes large, medium and small organisations.

Benefits

Option 1: Do nothing

There was no benefit to be gained from this option. The 1999 Accounting Order was no longer fit for purpose and it was therefore necessary to replace this with a new Order.

Option 2: Introduce a new Order to replace the 1999 Accounting Order

The sector has supported the introduction of a new Order. The accounting and regulatory frameworks have changed and a new Order brings the legislative requirements for RSLs accounts into line with the broader framework.

Costs

Option 1: Do nothing

There would be no cost attached to this option.

Option 2: Introduce a new Order to replace the 1999 Accounting Order

There will be some costs incurred by both RSLs and their auditors resulting from the introduction of a new Order. These costs are likely to be incurred on training and familiarisation.

Small Firms Impact

It is not considered that the proposals for the new Order will introduce any significant changes to the way that accounts are prepared for small RSLs. However, a number of RSLs are audited by small audit firms and they will need to familiarise themselves with the requirements of the new Order. Those firms currently providing audit services to the RSL sector were issued with the consultation for comment and familiarisation.

Small RSLs were subject to the requirements of the 1999 Accounting Order so for the majority of these RSLs, the proposed changes should have no greater impact than for larger RSLs. Training & familiarisation will be required.

There is an impact, however, for one group of small RSLs, the Abbeyfields. We are asking for some information to be included in the accounts that was previously supplied to us in a separate return. Abbeyfields were exempt from submitting this. We will work with the Abbeyfields' representative body to provide whatever support and guidance is necessary to ease the transition and to keep the impact to the absolute minimum.

Competition assessment

It is unlikely that the new Order will distort or restrict competition. However, keeping up with changes to the accounting framework for RSLs, as with any other sector, will continue to present a challenge for the smaller audit firms.

Enforcement, sanctions and monitoring

The provisions of the Order will be enforced by Communities Scotland, the regulator for RSLs in Scotland. The regulator is responsible for reviewing and reporting to the RSL sector on compliance with the Order. Scottish Ministers will review the impact of the Order within ten years of it coming into force.

Implementation and delivery plan

The Order was laid before the Scottish Parliament in March 2007 and comes into force on 01 April 2007. The Order applies to all Scottish RSLs with accounting periods commencing on or after 01 April 2007.

Post-implementation review

Over the next two years, the Companies Act 2006 will be enacted and this may lead to changes being required to the Order.

Additionally, the accounting framework for organisations in the United Kingdom will change significantly as a result of the expansion of the requirement to adopt International Financial Reporting Standards. It is likely that RSLs will be required to adopt international accounting standards in 2009, instead of the currently applicable UK accounting standards.

Communities Scotland will review the Order on an annual basis to ensure that it remains fit for purpose and will initiate updates when required.

Declaration and publication

I have read the Regulatory Impact Assessment and I am satisfied that the benefits justify the costs.

Signed by the Responsible Minister

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Rhona Brankin

Date

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Contact

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