



Homes &
Communities
Agency

CONSULTATION ON CHANGES TO THE ACCOUNTING DIRECTION

Consultation on changes to the accounting direction

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Consultation statement

Please respond by	12 June 2015
Please respond to	<p>Philip Winter Senior Advisor Homes and Communities Agency - the social housing regulator 2nd Floor, Lateral House 8 City Walk Leeds LS11 9AT</p> <p>Email: accountingdirection@hca.gsi.gov.uk</p> <p>If you would like to discuss any issue raised in this document before sending your response, please contact our Referrals and Regulatory Enquiries Team on 0300 1234 500 (choosing the option for regulation) who will be pleased to help.</p>
Why we are asking for views	<p>There are a number of changes in the accounting environment for private registered providers of social housing, which mean that an update to the accounting direction is required. These are to reflect the introduction of FRS102, a new Statement of Recommended Practice for the sector and changes to the regulatory framework. At the same time, we are taking steps to clarify some elements of the direction which was last published in 2012.</p> <p>Changes are required to reflect revisions to the regulatory framework as set out in the decision statement outlining the relevant points arising from the regulatory framework consultation. Those changes reflect:</p> <ul style="list-style-type: none">• amendments to Disposal Proceeds Fund requirements under Sections 177 and 178 of the Housing and Regeneration Act 2008, and• a change to the Governance and Financial Viability Standard requiring a new disclosure. <p>This document provides more detail of the proposed changes and, through this consultation, we bring this to the attention of those affected.</p>
What it means for you	<p>Our experience indicates that this consultation will mainly be of interest to private registered providers (both current and potential registrants) and their auditors. It may also be of interest to tenants, lenders and other stakeholders who</p>

	<p>have an interest in the social housing sector and the information that is disclosed in the annual financial statements of private registered providers. This consultation is an opportunity to influence how the regulator's revised direction is implemented, being proposed to take effect within accounts starting years beginning from 1 April 2015.</p>
<p>Context for this consultation</p>	<p>Section 127 of the Housing and Regeneration Act 2008 permits the regulator to give directions to private registered providers about the preparation of their accounts and to profit making private registered providers in so far as their accounts relate to social housing activities.</p> <p>Section 177 of the Housing and Regeneration Act 2008 also requires the regulator to give a direction on constituting the Disposal Proceeds Fund and showing it in the accounts, and to consult on that. The outline of the Disposal Proceeds Fund changes was included in the regulatory framework consultation and the details of required accounting disclosures are included in this consultation.</p>
<p>Who is being consulted</p>	<p>The regulator is required to consult one or more bodies which appear to represent the interests of private registered providers. In this regard the bodies that we will be consulting are listed in Annex 4.</p>
<p>How we are consulting</p>	<p>Alongside the publication of this consultation document the regulator will continue to engage in discussions with stakeholders through engagement with representative bodies and by responding to any enquiries.</p>
<p>Taking account of your views and what happens next</p>	<p>Once the consultation has closed, the regulator will review its proposed changes in light of the responses received from stakeholders. The regulator will then publish a decision statement as early as possible. This consultation proposes that the new direction will come into force for accounting periods commencing on and after 1 April 2015.</p>
<p>Publication of responses</p>	<p>We intend to publish all formal written responses shortly after the closing date of this consultation (unless you specifically ask us not to and subject to provisions within the Freedom of Information Act 2000).</p>
<p>Freedom of Information Act 2000/Environmental Information Regulations 2004</p>	<p>The HCA is subject to the Freedom of Information Act 2000 and the Environmental Information Regulations 2004. Therefore, information provided in response to this consultation may be made available in accordance with either statute.</p> <p>The HCA has a statutory obligation to respond to all</p>

	<p>requests for information. To inform our responses, we consult with third parties where applicable and appropriate. Additionally, you should indicate any areas of information that you believe are particularly sensitive when submitting your consultation response.</p> <p>Confidentiality agreements are not binding under Freedom of Information Act 2000 or the Environmental Information Regulations 2004.</p>
Data Protection Act 1998	<p>The HCA will process your personal data in accordance with the Data Protection Act 1998 and the Data Protection Principles.</p>
Equalities Statement	<p>The HCA is mindful of its statutory equality duties under section 149 of the Equality Act 2010. The HCA has published its equalities strategy which sets out 9 equality objectives that we are working on to deliver. This includes work to ensure that we pay due regard to equality when undertaking our regulatory functions involving matters of serious detriment.</p> <p>The regulator will take a proportionate approach to its equality obligations and has identified no specific equalities implications for this consultation. However, based on responses to this consultation, the HCA reserves the right to revisit these matters if new information comes to light.</p>

1. Introduction

- 1.1 Section 127 of the Housing & Regeneration Act 2008 permits the regulator to make directions to private registered providers (PRPs) about the preparation of their accounts¹, and to profit making PRPs in respect of social housing activities². The accounting direction does not apply to local authorities.
- 1.2 Section 127(3) states that:
- “The power must be exercised with a view to ensuring that accounts —
- (a) are prepared in proper form, and
 - (b) present a true and fair view of —
 - (i) the state of affairs of each private registered provider in relation to its social housing activities, and
 - (ii) the disposition of funds and assets which are, or have been, in its hands in connection with those activities.”
- 1.3 In January 2015, following a consultation period, the regulator published changes to the regulatory framework which will take effect from 1 April 2015. In 2014 the Financial Reporting Council also approved a new Statement of Recommended Practice (SORP) for the sector, following the introduction of Financial Reporting Standard (FRS) 102 which had some consequences relating to the accounting direction. All of these have led us to review and propose changes to the accounting direction.
- 1.4 This is also an opportunity to update the direction, to improve clarity of items and remove unnecessary and duplicated requirements.

¹ Paragraph 127(1) Housing and Regeneration Act 2008

² Paragraph 127(2) Housing and Regeneration Act 2008

2. The accounting direction for private registered providers of social housing

- 2.1. The regulator is consulting on changes to its accounting direction for PRPs of social housing (the accounting direction). A draft of this document is attached at Annex 1.
- 2.2. The accounting direction is intended to provide a common baseline of disclosures within the financial statements of PRPs relating to their social housing activities. This covers organisations that have a wide range of constitutional structures – including companies, charities and registered societies and profit making or non-profit.
- 2.3. The direction must take account of and accommodate recent changes made to accounting standards for the sector through FRS 102 and the new SORP. Also, other legislative amendments and references have been updated within the revised direction.
- 2.4. There are parts of the regulatory framework – the VfM Standard and the Governance and Financial Viability Standard - which require statements of compliance made within the financial statements of PRPs. These are statements which are publically available to all stakeholders in statutory documents which PRPs have to make openly available.
- 2.5. The regulator has taken the opportunity to reduce duplicated disclosures, whilst maintaining levels of detail that are of specific interest to the regulator and other stakeholders. It has also responded to feedback received from the sector that certain areas of the previous direction could be improved or clarified.
- 2.6. Other changes are limited to stylistic changes to the document, to ensure its layout, legislative framework and definitions are consistent with other regulatory publications. We propose to make this accounting direction applicable for accounting periods beginning from 1 April 2015. We believe this to be acceptable as many of the factors reflected in the direction have previously been published in other forms and documents. Any PRPs who have earlier financial years and are applying FRS 102 may adopt the direction early. However, they should note that some parts relating to the regulatory framework are only effective from 1 April 2015.
- 2.7. The questions being asked as a part of this consultation are attached at Annex 2.

3. Changes to the accounting direction

- 3.1 Changes arise from several drivers: changes to the regulatory framework, the effects of FRS 102 and the new SORP, and a desire to improve and clarify the document.
- 3.2 The social housing sector is changing and the regulator has responded to that change in order to ensure that the regulatory framework remains fit for purpose and that social housing assets continue to be protected. The decision on changes to the framework has been published and these will come into effect from 1 April 2015. The following changes to the direction result from this publication:
- a) The Governance and Financial Viability Standard requires that PRPs certify compliance within their annual accounts. This is a public document available to all stakeholders, so the regulator believes that this is an appropriate place for this to be reported. It should be included within the board or narrative report section of the accounts.
 - b) The treatment of disposals will also change for some PRPs and this has necessitated some amendment and expansion of the section covering Disposal Proceeds Fund (DPF). Where housing is bought by a profit making PRP from a non-profit PRP and is subsequently disposed of, the proceeds of sale must be placed in the DPF. This applies to any subsequent property acquired or built using DPF and then further disposed of, in perpetuity.
 - c) Stock transfers completed after 31 December 2014 are subject to conditions set by the DCLG Housing Transfer Manual. This requires that preserved right to buy proceeds should go into DPF in order to ensure that they are recycled into new social housing stock. This is included in the direction. This will not substantially affect many PRPs. However, the opportunity has been taken to thoroughly review and publish updated DPF requirements and guidance. The attention of all PRPs is drawn to the publication of this separate document.
 - d) The way in which the regulator deals with for profit and non-profit PRPs and registered and unregistered entities has changed, and this has had some effects on how these are treated within the direction.
- 3.3 The layout of the document has been changed to bring it more into line with the style and layout more consistent with other regulatory publications. The glossary of terms is now placed in an annex at the end of the document. The direction derives authority from the regulator being able to direct with statutory power in accordance with the Housing and Regulation Act, both in respect of accounting and the DPF. This legal framework is now made clearer, along with which elements apply according to size or which are based upon the PRP being non-profit or profit making.
- 3.4 FRS 102 and the new social housing SORP mean that there are various changes, including some new terminology used. We have attempted to avoid duplication where requirements are stated elsewhere and to ensure consistency in definition. This is the case with employee disclosures, although the direction does require some additional detail as we believe there is legitimate interest from stakeholders.
- 3.5 A new FRS 102 requirement covering the pension disclosure for the costs of multi-employer pension schemes, such as SHPS, has meant that it has been possible to

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remove the additional accounting direction disclosure.

- 3.6 The regulator is aware that concern has been expressed at the extent to which the Value for Money (VfM) Standard compliance statement might lead to over-long financial statements. We consider that this should not be the case but have clarified expectations in respect of demonstrating VfM, and that to manage the length and detail of reports within financial statements, it is permissible to use other published information as long as it is clearly signposted to stakeholders.
- 3.7 The regulator is keen to ensure that stakeholders are able to understand both the effect of accounting policies chosen and the extent of the potential volatility in reported results that are possible as a result of the changes in accounting standards. We expect PRPs to provide sufficient information to stakeholders through their narrative reporting and explanation of accounting policies, and are able to report in a meaningful but accessible way.
- 3.8 A more detailed summary of changes made to the direction is attached at Annex 3.

Annex 1

Proposed accounting direction 2015

See separate document

Annex 2

Consultation questions

Question 1

Does the proposed direction adequately reflect the requirements of the new regulatory framework and standards?

Question 2

Is the direction consistent with FRS 102 and the social housing SORP? If not, please indicate where it is not.

Question 3

Do the narrative reporting requirements adequately allow risks to be explored and the performance of the PRP to be explained to stakeholders in meaningful ways, consistent with the size and complexity of the provider?

Question 4

Are there any further sections in the direction that that should be clarified, expanded or removed?

Question 5

Does the proposed implementation date provide an adequate timescale for PRPs to introduce the requirements of the direction?

Question 6

Do you have any other comments regarding the proposed direction?

Annex 3

Summary of main changes to the accounting direction

The changes proposed fall into 3 main groups:

- Those that arise from the new regulatory framework;
- Issues arising from FRS 102/ the SORP; and
- Other matters intended to clarify, reduce duplication or improve the direction.

Regulatory framework		
1.1	Analysis of intra Group transactions between PRPs and non-PRPs	Reflecting changes in the Governance Standard from regulated/non-regulated to registered/unregistered
1.2	Narrative reporting	Governance and Financial Viability Standard compliance statement
1.3	Disposal Proceeds Fund	New categories included in the Fund and new DPF requirements published: <ul style="list-style-type: none"> • Inclusion of certain disposals by profit making PRPs • Preserved Right to Buy (for post 31 December 2014 stock transfers)
FRS 102/ SORP		
2.1	Schedule/Note B	Treatment of Government grant
2.2	Accounting policies	Comment on principal accounting policies
2.3	Narrative reporting	Board to comment upon risks etc. and effect of estimates and judgements upon performance
2.4	Various	Revisions to update terminology
Other		
3.1	Narrative reporting	Clarification on publishing of additional VfM details
3.2	Key management personnel	Standardising on FRS 102 definition rather than “directors and senior staff”
3.3	Remuneration	Rather than a mix of “remuneration” and

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		“emoluments”
3.4	Employees	Disclosure already required by FRS 102
3.5	Pension surpluses and deficits	Now covered under FRS 102
3.6	Fixed Assets	Disclosure already required by FRS 102
3.7	Provisions	Disclosure already required by FRS 102
3.8	Disposal Proceeds Fund	Now included as a separate section and with separate reporting format
3.9	Contingent liabilities	Disclosure already required by FRS 102
3.10	Debentures	Removed as a separate disclosure
3.11	Taxation	Removed as a separate disclosure
3.12	Accommodation owned and in management	To bring in line with SDR requirements
3.13	Glossary of terms	Replacing “definitions” and moved to an Annex

Annex 4

List of statutory consultees

Section 127(6) of the Housing and Regeneration Act 2008 Act requires that a direction relating to more than one registered provider may be given only after consulting one or more bodies appearing to the regulator to represent the interests of registered providers.

The following bodies will be consulted on the changes proposed within this document:

- The National Housing Federation;
- The SORP Working Party;
- The Institute of Chartered Accountants of England and Wales Social Housing Committee;
- The Chartered Institute of Public Finance and Accountancy Housing Panel, and
- The Council of Mortgage Lenders.

In addition, responses from individual registered providers or those considering registration will be welcomed. As will any responses from tenants, tenants' groups, other representative bodies or individual funders to the sector.

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The Homes and Communities Agency is committed to providing accessible information where possible and we will consider providing information in alternative formats such as large print, audio and Braille upon request.

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