



Regulator of  
Social Housing

# Consultation on changes to the Accounting Direction

July 2021



OFFICIAL

# Contents

Scope of the consultation	2
Basic information	3
1. Executive summary	1
2. Introduction	2
2. Proposed changes to the Accounting Direction	4
3. About this consultation	6
4. Annex 1: The Accounting Direction	7
5. Annex 2: Summary of proposed changes	8
6. Annex 3: Business Engagement Assessment	9
7. Annex 4: Statutory consultees	13

## Scope of the consultation

Topic of this consultation	<p>The Regulator of Social Housing (RSH) is proposing to update the existing Accounting Direction. The responses to the Accounting Direction 2019 consultation identified a number of issues which were outside of the scope of the changes proposed at the time. This included Schedule 1 of the Direction (Particulars of turnover, cost of sales, operating expenditure and operating surplus) and certain narrative reporting disclosures.</p> <p>RSH committed to further examine these issues and we are now in a position to consult on further amendments to the Accounting Direction. The regulator will review the proposed changes to the Accounting Direction in light of the responses received to this consultation. Any changes that may be made to the Accounting Direction will come into force for accounting periods commencing 1 January 2022.</p>
Scope of this consultation	<p>Before issuing a Direction, which applies to more than one registered provider, RSH is required by s126(6) Housing and Regeneration Act 2008 to consult one or more bodies appearing to the regulator to represent the interests of private registered providers.</p> <p>This consultation fulfils that requirement. It represents an opportunity for interested persons and organisations to influence how the Accounting Direction is developed and implemented.</p> <p>Alongside the publication of this consultation document, RSH will engage in discussions with stakeholders, including discussions with providers and sector advisors.</p>
Geographical scope	<p>These proposals relate to England only.</p>
Impact assessment	<p>Impacts are considered in our business engagement assessment (Annex 3).</p>

## Basic information

To	Private registered providers (PRPs), auditors, tenants, lenders and other stakeholders who have an interest in the social housing sector.
Body responsible for the consultation	Regulator of Social Housing
Duration	This consultation will last for 10 weeks from 14 July 2021. The closing date is 21 September 2021.
Enquiries	For any enquiries about the consultation please contact our Referrals and Regulatory Enquiries team on 0300 124 5225 who will be pleased to help.
How to respond	Please respond online via Microsoft Forms:

<https://forms.office.com/r/DzF53THQdu>

Please be aware that unless you complete the survey and click on the 'submit' button your response will not be registered as a completed return. However, these incomplete responses will be seen by the regulator and will be reviewed to determine whether they raise any new issues which it would be relevant for the regulator to consider.

If for any reason you are unable to complete a response on Microsoft Forms then you can email your response to the questions in this consultation to: [consultation@rsh.gov.uk](mailto:consultation@rsh.gov.uk) or write to the RSH at the address set out below.

Please include **“Accounting Direction”** as your subject heading.

If you are responding in writing or by email, please make it clear which questions you are responding to.

Written responses can be sent to:  
Referrals and Regulatory Enquiries  
Regulator of Social Housing  
1st Floor - Lateral  
8 City Walk  
Leeds LS11 9AT

When you reply please state whether you are replying as an individual or submitting an official response on behalf of an organisation. Please include:

OFFICIAL

- your name,
- your position (if applicable),
- the name of organisation (if applicable),
- an address (including post code),
- an email address, and
- contact telephone number.

Representative groups are asked to give a summary of the organisations they represent, and where relevant, who else they have consulted in reaching their conclusions when they respond.

We intend to publish an analysis of all formal responses after the closing date of this consultation. This will include anonymised responses and a list of all respondents to the consultation.

### **Freedom of Information Act 2000/Environmental Information Regulations 2004/ Data Protection Act 2018**

RSH is subject to the Freedom of Information Act (FOIA) and the Environmental Information Regulations 2004 (EIR). Therefore, information provided in response to this consultation may be made available in accordance with either statute.

RSH has a statutory obligation to respond to all 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.

Confidentiality agreements may not be binding under FOIA or EIR.

RSH will process your personal data in accordance with the Data Protection Act 2018.

### **Equalities statement**

RSH is mindful of its statutory equality duties under section 149 of the Equality Act 2010.

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, RSH reserves the right to revisit these matters if new information comes to light.

# 1. Executive summary

- 1.1 The Regulator of Social Housing (RSH) is consulting on a number of proposed changes to the Accounting Direction. The Accounting Direction is an instruction provided by the regulator to PRPs about the preparation of their accounts, and to profit-making PRPs in respect of social housing activities, it was last updated in 2019.
- 1.2 The principal areas of proposed change to the Direction relate to:
- The removal of any Direction relating to Disposal Proceeds Fund. The fund was abolished by section 92 (and Part 3 to Schedule 4) of the Housing and Planning Act 2016) and ceased to exist from April 2020.
  - Definitions and guidance of the key terms driving segmental reporting in Part 1 – Note A (Particulars of turnover, cost of sales, operating expenditure and operating surplus) and Note B (Particulars of turnover and operating expenditure from social housing lettings).
  - Minor amendments and clarifications on value for money (VFM) narrative reporting requirements.
- 1.3 As there are a small number of proposed changes, RSH is planning on consulting for ten weeks.
- 1.4 It is proposed that any changes which may be made to the current Direction following the completion of the consultation will have effect for accounting periods commencing on or after 1 January 2022. The majority of registered providers have accounting periods that commence 1 April. Early adoption of this Direction will be encouraged.

## 2. Introduction

2.1 Section 127 of the Housing and Regeneration Act 2008 permits the regulator to make Directions to PRPs about the preparation of their accounts<sup>1</sup>, and to profit-making PRPs in respect of social housing activities<sup>2</sup>. The Accounting Direction does not apply to local authorities.

2.2 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”

2.3 PRPs take a variety of constitutional forms, and the source and content of the relevant accounting obligations can vary across those different forms. The Accounting Direction ensures that PRPs report a common minimum set of disclosures within their accounts. The Direction also ensures that various aspects of compliance with the Regulatory Standards are disclosed and certified within PRP’s published accounts. This includes the VFM Standard, compliance with the Governance and Viability Standard and details of the code of governance adopted by the PRP.

2.4 During the consultation that informed the publication of the Accounting Direction 2019, the RSH was aware that some stakeholders (auditors in particular) were of the opinion that further refinement of our Direction was desirable. This centred on the current disclosures at Notes A and Note B (known as ‘segmental reporting’).

- The Statement of Recommended Practice (SORP) requires RPs with listed debt to follow International Financial Reporting Standard 8 (IFRS 8)<sup>3</sup> and report on operating segments based on management reporting structures. There was concern at the time that this would be inconsistent with segmental reporting required by Notes A and B in the Accounting Direction.

---

<sup>1</sup> Paragraph 127(1) Housing and Regeneration Act 2008

<sup>2</sup> Paragraph 127(2) Housing and Regeneration Act 2008

<sup>3</sup> IFRS 8 – Operating Segment - requires an entity whose debt or equity securities are publicly traded to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the different business activities in which it engages

- Note A of the Accounting Direction requires operating activities to be segmented by social housing lettings, other social housing, and activities other than social housing. Note B then requests further details on social housing letting activity, including a breakdown of expenditure. Some responses suggested reporting would be more consistent and transparent if the direction were to provide more prescriptive definitions of the key terms or state what approach to the allocation of costs should be adopted.

2.5 Following this feedback, RSH has continued to engage with stakeholders on the above. A working group was set up to explore the issues and evaluate solutions. The changes set out below reflect these discussions.



### 3. Proposed changes to the Accounting Direction

- 3.1 The proposed revised Accounting Direction may be seen at Annex 1. Our current view is that significant changes to the Accounting Direction are not required.
- Segmental reporting requirements as currently configured in the Accounting Direction are essential to our core objective of ensuring that accounts present a true and fair view of the state of affairs in relation to the PRP's social housing activities.
  - In 2020 accounts, only a minority of providers adopting IFRS8 produced two sets of segmental reports. Where they did, our view is that this did not negatively impact on the transparency of the accounts nor significantly add to their length.
  - The Accounting Direction should provide clear and concise guidance aimed at ensuring disclosures in accounts relating to social housing activities are prepared in a proper form. Overly prescriptive and detailed guidance would not be appropriate given our duty to be proportionate and minimise interference.
- 3.2 The detail of the key changes, including page references, is set out in Annex 2. In summary, the following changes are proposed:
- To provide further clarity and explanation of segmental reporting requirements
  - To provide a more robust definition of the key terms driving segmental reporting
  - To link to other resources produced by the RSH which provide supporting information on the preparation of disclosures
  - To clarify that expectations on VFM reporting are set out in the Code of Practice and that reporting in the accounts is required at a group level.

3.3 The consultation questions are as follows.

1. Do reporting requirements covering the particulars of turnover, cost of sales, operating expenditure and operating surplus (Part 1 Note A) enable:
  - the performance of the PRP to be explained to stakeholders in meaningful ways?
  - are they consistent with reporting requirements where an operating segment report is produced to comply with IFRS8?
2. Does the proposed Accounting Direction adequately set out the reporting requirements in respect of the particulars of turnover and operating expenditure from social housing lettings (Part 1 Note B)?
3. Does the proposed Accounting Direction adequately support the Value for Money reporting requirements that must be published annually within the statutory accounts?<sup>4</sup>
4. Are there any areas of the proposed Accounting Direction that should be clarified, expanded on or removed?
5. Does the proposed implementation date provide an adequate timescale for PRPs to introduce the requirements of the Accounting Direction?
6. Do you agree with these proposed changes?
7. Do you have any other comments regarding the proposed Direction?

---

<sup>4</sup> RSH intends to include links to the VFM and the Code of Practice within the proposed Accounting Direction. It should be noted that the links are to existing publications which underwent a separate public consultation. The links are intended to provide further clarification and/or guidance on the requirements of the Accounting Direction and the documents themselves do not form part of this consultation.

## 4. About this consultation

- 4.1 This consultation document and consultation process has been developed to adhere to the Consultation Principles issued by the Cabinet Office.
- 4.2 Representative groups are asked to give a summary of the people and organisations they represent, and where relevant, who else they have consulted in reaching their conclusions, when they respond.
- 4.3 Information provided in response to this consultation may be published or disclosed in accordance with the access to information regimes (the Freedom of Information Act 2000, and the Environmental Information Regulations 2004).
- 4.4 If you believe that the information that you are submitting is sensitive please say so when submitting your consultation response and explain to us why you believe that the information should not be disclosed in response to an information request. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that the information will not be disclosed. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the regulator.
- 4.5 Thank you for taking the time to read this document and respond. Your opinions are valuable to us.

## 5. Annex 1: The Accounting Direction

See separate document: *Proposed Accounting Direction for registered providers of social housing – 2022*

## 6. Annex 2: Summary of proposed changes

Section	Change
Overview	Sections on Disposals Proceeds Fund (DPF) removed.
Commencement and requirements	Periods commencing 1/1/2019 – early adoption permitted. Reference DPF abolition.
<b>The Schedule to the Accounting Direction for PRPs social housing 2015</b>	
Particulars of turnover, cost of sales, operating expenditure and operating surplus	Introductory text added to clarify requirements.
Particulars of turnover and operating expenditure from Social Housing lettings	Introductory text added to clarify requirements. A note added to provide a link to supporting information included in regulatory return guidance produced by the regulator.
<b>Part 2</b>	
Narrative reporting	Updated re VFM section to provide a link to the Code of Practice and further clarifications.
Disposal Proceeds Fund	Sections on DPF removed.
<b>Glossary of terms</b>	
Disposal Proceeds Fund	Definition removed.
Social housing	Definition updated.
Social housing lettings	Definition extended and updated.
Other social housing activities	Definition updated.

## 7. Annex 3: Business Engagement Assessment

<b>Title of proposal</b>	<b>Statutory consultation on Changes to the Accounting Direction</b>
Lead regulator	Regulator of Social Housing
Contact for enquiries	Referrals and Regulatory Enquiries team 0300 1234 5225 consultation@rsh.gov.uk

Date of assessment	June 2021	Stage of assessment	Final
Net cost to business (EANCB)		Commencement date	Jan 2022
Which area of the UK will be affected by the change(s)?	England	Price and present value base years	NA
Does this include implementation of Red Taper Challenge commitments?	No	Is this directly applicable EU or other international legislation?	No

### Brief outline of proposed change

The regulator proposes to revise its Accounting Direction for PRPs of social housing.

### Why is the change proposed? Evidence of the current problem

The Accounting Direction is made under section 127 of the Housing and Regeneration Act 2008 which gives RSH the power to “give directions to registered providers about the preparation of their accounts”.

PRPs operate under a variety of constitutional bases where the appropriate legislation for each type of body (Companies Act, Charities Act, Co-operative and Community Benefit Societies Act) does not lead to consistent financial reporting.

The Accounting Direction ensures that PRPs report a common minimum set of disclosures within their accounts. We aim to ensure that there is no duplication of reporting requirements in the Accounting Direction and the SORP for registered social housing providers/ Financial Reporting Standard 102.

The Accounting Direction ensures that useful and consistent disclosures are seen by all users of accounts and this is in the interests of the stakeholders of PRPs. The Accounting Direction also ensures that various aspects of compliance with the Regulatory Standards are disclosed and certified within PRP's published accounts. This includes the VFM Standard, compliance with the Governance and Viability Standard and details of the code of governance adopted by the PRP.

The latest Accounting Direction was published in January 2019. Updates were made in respect of the following.

- The then new VFM Standard and associated reporting requirements
- Interim financial reporting arrangements following the abolition of the DPF to be applicable whilst remaining balances were used up.

In the consultation which led to the 2019 Accounting Direction more fundamental issues were raised by some stakeholders.

- Potential duplication and inconsistency from there being two applicable sets of segmental reporting requirement (Notes A and B in Part 1 of the Accounting Direction and IFRS8 based on operating segments).
- The absence of prescriptive guidance covering elements of the segmental reporting requirement in Notes A and B Part 1 of the Accounting Direction. Particularly in respect of the allocation of different overheads or which accounting policies should be adopted.
- Do narrative reporting requirements, particularly those in relation to compliance with the VFM Standard and the Governance and Financial Viability Standard support a 'true and fair' view of the financial position of the entity.

In addition to the issues raised above, the requirement for providers to include disclosures on DPF has been removed. Section 92 (and Part 3 to Schedule 4) of the Housing and Planning Act 2016 (HPA 2016) repealed section 177 of the Act and abolished DPF with effect from 6 April 2017. However, the 2019 Accounting Direction set out transitional arrangements which meant that providers with DPF balance must continue to comply with the regulator's requirements until 6 April 2020.

In the two years since the last update of the Direction there have been no significant changes to the Regulatory Standards, the SORP or FRS102. Therefore, the changes set out in this Direction are limited to addressing the issues set out above.

## **Which types of businesses will be affected? How many are affected?**

The proposed revised Accounting Direction applies to all PRPs. Legislation permits RSH to make a Direction to non profit-making PRP's preparation of their accounts and to profit-making PRPs about their social housing activities only. The proposed Accounting Direction covers both, as specified within the document.

All private registered providers are affected by these proposals although there is a slightly reduced disclosure regime for smaller PRPs with fewer than 1,000 units of accommodation.

These proposals do not apply to local authority registered providers.

---

## **How will the change impact these businesses?**

The proposed changes should make a positive impact for PRPs:

- Amendments have been made to Schedule 1 of the Accounting Direction to clarify the rationale and requirements for segmental reporting in Notes A and B.
- Glossary definitions of the terms Social Housing and Social Housing Lettings have been updated to promote consistency and transparency in reporting.
- Links to supporting information contained within our regulatory return guidance have been added.
- A link to the VFM Code of Practice has been added to clarify reporting requirements.
- Disclosures on DPF are no longer required and have been removed.

Our view is that the changes are relatively minor and will lead to a net reduction in the regulatory burden placed on providers.

---



## Impact on small businesses

The majority of the sector comprises of small providers/businesses. We have addressed this in our consultation by minimising the impact on this section of providers in light of our duty to minimise interference and proportionality.

The consultation document proposes to continue our existing regulatory approach to regulating smaller providers of less than 1,000 units. Registered providers which own fewer than a thousand social housing units collectively account for less than 5% of the sector's total assets, turnover and debt. As a result, the regulator considers that a different level of regulatory engagement is more proportionate. Our full approach to regulating small providers is set out in our [Regulating the Standards](#) document.

---

## Equality and diversity

RSH is mindful of its statutory equality duties under section 149 of the Equality Act 2010.

The regulator will take a proportionate approach to its equality obligations and has at this stage identified no specific equalities implications of the changes proposed in this consultation. The proposed changes to the Accounting Direction constitute primarily a change to the way providers prepare their accounts rather than being directive about the individual measures providers choose to take. In this, as in all areas, RSH's co-regulatory approach means that these decisions are for the provider to take. As a result of this, a full equality analysis has not been completed on the proposed changes, but equality will continue to be considered during future development of the proposals.

Although there are no apparent impacts arising from the proposals, providers are responsible under their own equality duties to ensure that their decisions support the requirements of the Equality Act 2010 and meet all aspects of the General Duty.

Due to this it is incumbent on providers to ensure that they understand and address any impact on equality when working to complete their accounts under the Accounting Direction.

RSH will review its consideration of the impacts on equality and diversity following the consultation and the analysis of stakeholder feedback to the consultation. Should any equalities-related issues arise following the consultation, the regulator will ensure that these are taken into account when finalising the proposals.

If it becomes apparent that a full equality analysis is needed, then this will be undertaken and published with the Decision Statement.

## 8. Annex 4: Statutory consultees

Section 127 HRA 2008

(6) A Direction that relates 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 private registered providers.

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

- The National Housing Federation
- The Statement of Recommended Practice for registered social housing providers Working Party
- The Institute of Chartered Accountants of England and Wales Social Housing Sub-Committee
- The Chartered Institute of Public Finance and Accountancy Housing Panel
- UK Finance.

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.



© RSH copyright 2021

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit [nationalarchives.gov.uk/doc/open-government-licence/version/3](https://nationalarchives.gov.uk/doc/open-government-licence/version/3)

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at: [www.gov.uk/rsh](http://www.gov.uk/rsh)

Any enquiries regarding this publication should be sent to us via [enquiries@rsh.gov.uk](mailto:enquiries@rsh.gov.uk) or call 0300 124 5225.

or write to:

Regulator of Social Housing

1st floor – Lateral

8 City Walk

Leeds LS11 9AT

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