

# THE ACCOUNTING DIRECTION FOR SOCIAL HOUSING IN ENGLAND FROM APRIL 2012

September 2012

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## Preamble

- 1 This direction as to the general requirements for the accounts of private registered providers (RPs) of social housing is made by the Regulator of Social Housing (the regulator) in exercise of the powers conferred on it by section 127 of the Housing and Regeneration Act 2008 and after consultation with such bodies appearing to the regulator to be representative of RPs as it considered appropriate.
- 2 This direction is made without prejudice to the regulator's power to make specific directions under the provisions of the Housing and Regeneration Act 2008. Where reference is made to any legislation, standard or guidance which is subsequently amended or replaced, then the later publication should be taken to apply to this direction until such time it is revised.

## Citation and commencement

- 3 This direction is called the Accounting Direction for Private Registered Providers of Social Housing 2012 and has effect in relation to periods of account beginning on or after 1 April 2012. This direction supersedes the requirements of the Accounting Requirements for Registered Social Landlords General Determination 2006. The 2006 Determination continues to apply to accounts for periods beginning before 1 April 2012 although earlier adoption of the 2012 direction is permitted.
- 4 This direction applies to RPs in terms of the preparation of their accounts<sup>1</sup> and to profit-making RPs only in so far as their accounts relate to social housing activities<sup>2</sup>.

## Definitions

- 5 This section covers additional definitions relating to disclosures which are not otherwise included elsewhere such as accounting standards or legislation. Words and expressions used in this direction shall, unless the context requires otherwise, have the following meanings.

“board” means the governing body of an RP

“chief executive” means the person who has overall responsibility for the running of the day to day affairs of the RP's social housing activities

“director” means a member of the board of the RP

“disposal proceeds fund” means the fund held by an RP holding sums calculated and disclosed in accordance with directions made under section 177 of the Housing and Regeneration Act 2008

“financial assistance” is defined by section 19 of the Housing and Regeneration Act 2008. It is also taken to include financial assistance provided by predecessor bodies to the HCA

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<sup>1</sup> Housing and Regeneration Act 2008 s127(1)

<sup>2</sup> Housing and Regeneration Act 2008 s127(2)

“general needs housing” covers the bulk of social housing rental accommodation. It includes both self-contained and hostel/shared housing units and bedspaces. General needs housing is stock that is not designated for specific client groups with support needs.

“group” means a parent organisation together with that organisation’s subsidiary and associate organisations as defined by section 271 of the Housing and Regeneration Act 2008.

“housing for older people” means social rental accommodation with rules designed to ensure it is made available to older people typically (although not exclusively) aged 55 and older. Homes should be described as housing for older people if they are intended for older people and they either incorporate a range of basic facilities and special design features. The age of tenants actually resident is not a defining feature.

“larger registered provider” means an RP which owns more than 1,000 homes on the first day of the period of account.

“non-regulated element” is defined by the regulator in its Governance and Financial Viability standard within the Regulatory Framework.

“private registered provider” (RP) means a body registered with the regulator under section 112 of the Housing and Regeneration Act 2008.

“recycled capital grant fund” means the fund used to recycle grant in accordance with procedures and policies specified by the Homes and Communities Agency under sections 32 of the Housing and Regeneration Act 2008.

“remuneration” means payment receivable for services or employment and includes basic salary and any bonuses.

“senior management team” refers to those persons having authority or responsibility for directing or controlling the social housing activities of the RP.

“social housing” is defined in sections 68 to 71 of the Housing and Regeneration Act 2008 and means low-cost rented housing (including Affordable Rent properties), low-cost home ownership accommodation and ‘legacy’ stock owned by landlords that were registered prior to 1 April 2010.

“social housing activities” means accommodation, facilities or services provided by a registered provider in connection with the provision of social housing or its management.

“social housing lettings” means activities associated with the management, repair and maintenance of social housing accommodation and housing services provided with that accommodation.

“SORP” means the ‘Statement of Recommended Practice: Accounting by registered social housing providers’ issued jointly by the National Housing Federation, Community Housing Cymru and the Scottish Federation of Housing Associations, as amended or re-issued from time to time.

“Standards” refer to those requirements set out in the Regulatory Framework and issued by the regulator under sections 193 and 194 of the Housing and Regeneration Act 2008.

“supported housing” means social housing that is purpose designed or designated to provide support for a particular client group. In the absence of either of the following two conditions, housing is general needs:

- Purpose designed supported housing includes buildings that are specially designed or remodelled to encourage independent living or the adjustment to independence. There must be support services provided by the landlord or another organisation.
- Designated supported housing includes properties that have some or no purpose design features, but which provide accommodation for a specific supported housing client group with support services in place to enable independent living or the adjustment to independence. The support services can be provided by the landlord or another organisation.

“unit of accommodation” means self-contained and non-self-contained homes and bedspaces.

“void losses” means rental income lost as a result of property not being let, although it is available for letting.

### **Information in specified form**

- 6 Any requirement in this direction to prepare information in a specified form shall be satisfied if it is prepared in a form substantially to the same effect.

### **Group structures**

- 7 Where the RP is the parent organisation within a group structure, that RP shall prepare group financial statements unless permitted by legislation and financial reporting standards not to do so.

### **General accounting requirements**

- 8 The accounts presented shall comply with the applicable accounting standards and associated guidelines, and this direction. Where applicable, they shall also comply with the SORP.
- 9 Nothing in this direction shall prevent the accounts giving more information than is required by this direction.

### **Notes to the accounts**

- 10 Every larger RP shall show the information specified in Part 1 of the Schedule to this direction.
- 11 In providing the information required by Part 1 of the Schedule to this direction, lines with a nil value can be omitted and lines where the value is not material can be aggregated.

- 12 Every RP shall include in the notes to its accounts the information shown in Part 2 of the Schedule to this direction in so far as it is applicable to social housing activities. Where there are material levels of non-regulated elements, then the notes should show separately the amounts applicable to social housing activities.
- 13 In providing the information required by the Schedule to this direction the corresponding amount, if any, for the previous period of account shall be shown. Corresponding amounts may be omitted in the first year of adoption of the direction, unless otherwise required by legislation.

## The schedule

### To the accounting direction for private registered providers of social housing 2012

#### Part 1

#### Note A – Particulars of turnover, cost of sales, operating costs and operating surplus

	Turnover	Cost of Sales	Operating Costs	Operating Surplus / (deficit)
	£	£	£	£
Social housing lettings (Note B)				
Other social housing activities:				
Current asset property sales				
Charges for support services				
Other				
<i>Memo only:</i>				
Non-social housing activities				
Total				

#### Notes

1. Registered providers completing this note must complete Note B. The requirement to complete this note is set out in paragraphs 10, 11 and 13 of the direction.
2. Where, in the opinion of the board, it is necessary, in order for the financial statements to show a true and fair view, additional lines analysing 'other social housing activities' should be included in this note.
3. Items shown as "memo only" are intended to facilitate reconciliation of this note with the income and expenditure account.

## Note B – Particulars of income and expenditure from social housing lettings

	General needs	Supported housing and housing for older people	Other	20X1 Total	20X0
<b>Income</b>	£	£	£	£	£
Rent receivable net of identifiable service charges					
Service charge income					
Other revenue grants					
<b>Turnover from social housing lettings</b>					
<b>Expenditure</b>					
Management					
Service charge costs					
Routine maintenance					
Planned maintenance					
Major repairs expenditure					
Bad debts					
Depreciation of housing properties					
Impairment of housing properties					
Other costs					
<b>Operating costs on social housing lettings</b>					
<b>Operating surplus/(deficit) on social housing lettings</b>					
Void losses					

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### Notes

1. Rent receivable should be computed net of any voids
2. Additional categories of social housing may be included where appropriate for the RP.



## **Part 2**

### **Other information to be shown in the accounts**

#### **Establishment of private registered provider**

- 1 A statement of the legislative provisions under which the private registered provider of social housing is established.

#### **Financial reporting standards**

- 2 Whether the accounts have been prepared in accordance with relevant financial reporting standards, where applicable, the Statement of Recommended Practice (SORP), 'Accounting by registered social housing providers', issued from time to time by the national housing federations, and this direction. Particulars of and reasons for any material departures from the standards, SORP or this direction. "Financial reporting standards" in this paragraph has the same meaning as "Accounting standards" in section 464(1) of the Companies Act 2006. "Applicable" has the same meaning as in section 464(2) of the Companies Act 2006.

#### **Accounting policies**

- 3 RPs should ensure that they adopt accounting policies most appropriate to their circumstances for the purpose of giving a true and fair view, with sufficient information disclosed to enable stakeholders to understand them.

#### **Analysis of intra group transactions between regulated and non-regulated entities**

- 4 Every RP shall demonstrate a transparency in the flow of funds, allocation of overheads and transactions between regulated and non-regulated elements of the business.
- 5 Where an RP transacts with a non-regulated element of the business including an associate, subsidiary or other group member which is not an RP, accounting statements prepared shall:
  - describe the basis of any significant apportionment, recharge or allocation of revenues, costs, assets and liabilities between the RP and the other party
  - specify in aggregate the revenues, costs, assets or liabilities which have been so apportioned or allocated
  - specify which associates, subsidiaries or other group members have been involved in the apportionment or allocation

#### **Board report and operating and financial review**

- 6 The accounts should be accompanied by a directors' report or, where the primary activity of the organisation is not the provision of social housing, an equivalent, covering social housing activities. The report should disclose the

code of governance that has been adopted and explain areas of non-compliance.

- 7 It is considered best practice for all larger RPs (in this respect taking a higher limit of at least 5,000 homes) to produce an operating and financial review (OFR). Smaller RPs are also encouraged to publish an OFR. The OFR must provide a balanced and comprehensive analysis consistent with the size and complexity of the business of:
- The RP's development and performance during the financial year
  - The RP's (or group's) position at the end of the year
  - The main trends and factors underlying the development, performance and position of the RP (or group) and which are likely to affect it in the future
- 8 The board of the RP should undertake and publish within either its board report or OFR an assessment of the performance of the RP for the year which sets out to stakeholders how it is achieving value for money in delivering its purpose and objectives, in accordance with the regulator's standard on value for money.

#### **Extension of definition of director**

- 9 In paragraphs 10 to 19 below "director" also includes the chief executive and any other person who is a member of the senior management team, or its equivalent, of the RP.

#### **Directors' and senior staff emoluments**

- 10 The aggregate amount of emoluments payable to the RP's directors or former directors (including board members where remunerated) in relation to the period of account or, where no such emoluments are so payable, a statement to that effect. The aggregate amount of emoluments disclosed should be analysed between those paid to directors who are executive staff members and those paid to directors who are not.
- 11 The emoluments payable to the highest paid director in relation to the period of account, excluding pension contributions.
- 12 The full time equivalent number of staff whose remuneration payable in relation to the period of account fell within each band of £10,000 from £60,000 upwards. Remuneration should also include compensation for loss of office.
- 13 Details of the nature of the chief executive's pension arrangements stating:
- (a) the nature of the pension scheme and how it is funded
  - (b) whether he or she is an ordinary member of the pension scheme
  - (c) whether any enhanced or special terms apply

- (d) whether he or she has an individual pension arrangement (including a personal pension) to which the RP or any of its subsidiaries makes a contribution, and if so, the aggregate amount of contribution made by the RP and its subsidiaries
- 14 In paragraphs 10 to 13 above "emoluments" means payments in respect of a director's services as a director of the RP or the director's services (while a director of the RP) in connection with the management of its affairs or the affairs of any subsidiary undertaking of the RP, whether those amounts are payable by the RP or any of its subsidiaries, and includes:
- (a) wages and salaries, including performance related pay, payable for the period
  - (b) fees and dividends
  - (c) sums payable by way of expense allowance (so far as chargeable to United Kingdom tax)
  - (d) contributions payable in respect of pensions
  - (e) the estimated money value of any other benefits otherwise than in cash

Emoluments in respect of a person accepting office as director shall be treated as emoluments in respect of their service as director.

- 15 The aggregate amount of any compensation payable to directors or past directors in relation to the period of account in respect of loss of office (whether by retirement or otherwise).
- 16 The aggregate amount of directors' or past directors' pensions payable or recognised within the financial statements for the year. This amount does not include any pension payable or receivable under a pension scheme if the scheme is such that the contributions under it are substantially adequate for maintenance of the scheme. The amount shown shall distinguish between pensions in respect of services as director, whether of the RP or any of its subsidiary undertakings, and other pensions.

#### **Consideration for directors' services**

- 17 The aggregate amount of any consideration payable to or receivable by third parties in relation to the period of account for making available the services of any person to perform in the role of director of the RP or (while a director of the RP) in connection with the management of the affairs of the RP or the affairs of any subsidiary undertaking of the RP. "Third parties" means persons other than a director or a person connected with the director or a body corporate controlled (within the meaning of section 255 of the Companies Act 2006) by that director and the RP or any of its subsidiary undertakings.
- 18 In paragraphs 16 to 17 above, amounts to be disclosed include benefits otherwise than in cash and, in relation to such amounts, reference to the amounts are to be the estimated money value of the benefit. The nature of such benefits should be disclosed.

## **Employees**

- 19 The average number of employees employed during the period of account expressed in full time equivalents, to be calculated on a basis disclosed by the RP.
- 20 The aggregate amount of the following payable in relation to the period of account, shown separately for employees and non-executive members of the board of the RP:
- (a) wages and salaries including performance related pay, payable for the period
  - (b) other social security costs incurred by the RP
  - (c) any other pension costs
- 21 In paragraph 20(b) "social security costs" means any contributions by the RP to any state social security or pension scheme, fund or arrangement. "Pension costs" includes any costs incurred by RP in respect of any pension scheme established for the purpose of providing pensions for persons currently or formerly employed by the RP, any sums set aside for the future payment of pensions directly by the RP to current or former employees and any pensions paid directly to such persons without having first been set aside.

## **Social housing income and expenditure**

- 22 Where the information in Part 1 of this Schedule has not been provided, the following information shall be given in relation to the period of account:
- (a) rent receivable excluding service charges
  - (b) service charges receivable
  - (c) revenue grants receivable from whatever source
  - (d) social housing operating costs
  - (e) operating surplus/deficit and net surplus/deficit from social housing activities
  - (f) void losses

## **Pension surpluses and deficits**

- 23 Where an RP is a member of a multi-employer defined benefit pension scheme and is making use of the exemption available in Financial Reporting Standard 17 'Retirement Benefits' regarding the recognition of surpluses or deficits, then it should disclose information about the existence of the surplus or deficit in the scheme and the implications of that surplus or deficit for the employer. This should include, for deficits, any additional amounts that they are required to pay and the number of years these obligations will last.

## **Social Housing Assistance receivable**

- 24 The total accumulated amount of capital grant or financial assistance received or receivable at the balance sheet date. In this context, Social Housing Assistance shall be taken to include Social Housing Grant and Housing Association Grant previously received. Social Housing Assistance is paid as a form of financial assistance under section 19 of the Housing and Regeneration Act 2008.

## **External auditors**

- 25 The amount of remuneration, exclusive of VAT, in relation to the period of account including sums payable in respect of expenses, of the RP's external auditors in their capacity as such, including the basis of any apportionments of cost to the RP, if applicable.
- 26 The amount of any remuneration, in relation to the period of account exclusive of VAT, including sums payable in respect of expenses, of the RP's external auditors or their associates in respect of services other than those of external audit. "Associate" has the same meaning as in regulations made under section 494 of the Companies Act 2006.

## **Fixed assets**

- 27 A reconciliation between the balance at the beginning of the period of account and the balance at the end of the period of account, for all classes of social housing asset, and in aggregate separately for housing properties and other fixed assets, in respect of gross cost or valuation, capital grants, accumulated depreciation, impairment and net book value. Additions to completed properties should distinguish between completed properties acquired, components capitalised and other works to existing properties.
- 28 Where any amount is shown in respect of land including buildings in the RP's balance sheet, whether this be in respect of housing properties or other fixed assets, there shall be stated in respect of the net book value of the assets:
- (a) how much of that amount relates to properties where the freehold of the land is owned by the RP and how much relates to properties where the land is held on a lease
  - (b) where the land is held on a leasehold basis, how much of that amount relates to properties held on a long lease and how much to properties held on a short lease

"Long lease" and "short lease" have the same meaning as in Paragraph 7 of Schedule 10 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (2008/No. 410).

## **Share capital**

- 29 The balances at the beginning and end of the period of account, together with an analysis of movements in the year and details of any dividends or distributions paid, in respect of social housing activities or business.

## **Provisions**

- 30 In respect of any provision in respect of social housing activities shown in the balance sheet at any time during the period of account:
- (a) the amount brought forward from the previous period of account
  - (b) the charge to the income and expenditure account for the period
  - (c) expenditure charged to the provision during the period
  - (d) the amount carried forward to the next period of account
  - (e) the nature of the provision (if not already disclosed within the accounting policies note)
- 31 The amount of the provision for deferred taxation shall be disclosed separately from other provisions.
- 32 The reason for any charge from a provision where the reason is other than that for which the provision was set up.

## **Creditors**

- 33 In respect of each item shown under creditors in the RP's balance sheet there shall be stated:
- (a) the aggregate amounts of any debts included under that item in respect of which any security has been given by the RP together with an indication of the nature of the security given
  - (b) where the nature of the liability is debt, in respect of each debt, the terms of payment or repayment, and the rate of interest payable on the debt
  - (c) the aggregate amount of adjustments made to the carrying value of debt in respect of finance costs, discounts and premia
- 34 If it is not practicable to comply with paragraph 33(b) because to do so would result in a statement of excessive length, it shall be sufficient to give a summary of the main elements, showing terms of payment or repayment, and the rates of interest payable on the debts.
- 35 In respect of the disposal proceeds fund:
- (a) a reconciliation between the balance held at the beginning of the period of account and the balance at the end of the period of account, showing amounts added into and taken out of the fund. The reasons for amounts taken out should be disclosed
  - (b) the amount which is due for repayment to the Homes and Communities Agency or GLA

Materiality should not be applied to this paragraph or to paragraph 36.

- 36 In respect of the recycled capital grant fund:
- (a) a reconciliation between the balance held at the beginning of the period of account and the balance at the end of the period of account, showing amounts added into and taken out of the fund. The reasons for amounts taken out should be disclosed
  - (b) the amount which is due for repayment to the Homes and Communities Agency or GLA

A suggested format for this disclosure and the disclosure required by the preceding paragraph is attached at Appendix 1.

### **Rent arrears**

- 37 The aggregate amount of social housing rent arrears and the amount of any provisions for bad and doubtful debts. Rents paid in advance should be shown as a creditor, not netted off against arrears.

### **Charges**

- 38 Particulars of any charge on the assets of the RP to secure the liabilities to any other person or organisation, including, where practicable, the amount secured.

### **Contingent liabilities**

- 39 The following information shall be given with respect to other social housing contingent liabilities not provided for at the balance sheet date:
- (a) the amount or estimated amount of that contingent liability
  - (b) its legal nature
  - (c) whether any security has been provided by the RP in connection with that liability and if so details of the security provided.

### **Capital funding and commitments**

- 40 There shall be stated:
- (a) the aggregated amount of contracts for capital expenditure, so far as not provided for
  - (b) the aggregated amount of capital expenditure approved by the directors which has not been contracted for
  - (c) an indication of the proposed financing of such expenditure, showing the amount of grant, agreed loans, loans under negotiation, property sales and any other sources of funding

### **Other commitments**

- 41 Particulars shall also be given of any other financial commitments which have not been provided for and are relevant to assessing the RP's state of affairs in respect of social housing activities.

### **Debentures**

- 42 Where an RP has issued debentures during the period of account the following information shall be given:
- (a) the classes of debentures issued
  - (b) in respect of each class of debenture issued:
    - (i) the notional amount issued
    - (ii) the consideration received by the RP

### **Taxation**

- 43 An analysis of the tax charge for the year including:
- (a) the Corporation Tax charge for the period of account
  - (b) any over or under provision for Corporation Tax in previous period(s) of account
  - (c) the charge to deferred tax for the period of account.

### **Accommodation in management**

- 44 The number of units of different types of social housing accommodation managed by the RP at both the start and the end of the period of account. "Types" in this paragraph include: general needs housing – differentiated between that let at social rent and Affordable Rent levels; supported housing and housing for older people; low-cost home ownership accommodation; and care homes providing personal care under the Care Standards Act 2000. This list is not exhaustive and RPs must provide a full analysis appropriate to their operating circumstances.

### **Accommodation managed by others**

- 45 Where accommodation owned by an RP is being managed on its behalf by another body, the number of units of accommodation managed by other bodies at the start and the end of the period of account.

### **Related parties**

- 46 Relationships between parents and subsidiaries and regulated and non-regulated group or associated bodies shall be disclosed irrespective of whether there have been transactions between those related parties. Other related party transactions should be disclosed in accordance with Financial Reporting Standard 8 'Related Party Disclosures', unless otherwise required to satisfy the requirements of paragraphs 4 or 5.



## **Group structures**

47 There shall be stated:

- (a) whether the RP is required by statute to prepare group accounts
- (b) the name of the undertaking which is regarded by the board as the ultimate parent undertaking of the RP
- (c) details of all entities either within the group or with which the RP is associated, along with details of which are registered with the social housing regulator. Where this is disclosed within group accounts of a parent that is registered with the social housing regulator, this need not be repeated by every subsidiary

## Appendix 1

### Suggested format for disclosure of RCGF and DPF balances

		<b>£000</b>
Opening balance		X
Inputs to fund:	Grants recycled	X
	Interest accrued	X
	Transfers from other Group members	X
Recycling of grant:	New build	(X)
	Major repairs and works to existing stock	(X)
	Transfers to other Group members	(X)
	Other	(X)
Repayment of grant to the HCA/GLA		(X)
Closing balance		<b>X</b>
Amount due for repayment to the HCA/GLA		<b>X</b>

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