



Homes &
Communities
Agency

THE ACCOUNTING DIRECTION FOR PRIVATE REGISTERED PROVIDERS OF SOCIAL HOUSING

from April 2015

Draft for consultation

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Overview

- 1 Private registered providers of social housing (PRPs) are required by Section 127 of the Housing and Regeneration Act 2008 (the Act) to comply with a direction of the regulator about the preparation of their accounts; and are required by Section 177(4) of the Act to constitute their Disposal Proceeds Fund (DPF) and to show the DPF in their accounts in accordance with a direction of the regulator.
- 2 The regulator has power under s127 and s177(4) of the Act to:
 - Give directions to PRPs about the preparation of their accounts (in relation to profit-making PRPs, only in so far as its accounts relate to social housing activities). The power must be exercised with a view to ensuring that accounts are prepared in a proper form and present a true and fair view of the state of affairs in relation to the PRP's social housing activities and the disposition of funds and assets which are, or have been, in the PRP's hands in connection with those activities.
 - Direct how PRPs must constitute and present a DPF in their accounts.
- 3 This document (*Accounting Direction for private registered providers of social housing 2015*) sets out the regulator's directions about how PRPs must prepare their accounts in relation to the matters set out above. The regulator, as required by section 127(6) of the Act, has consulted with one or more bodies appearing to the regulator to represent the interests of PRPs.
- 4 This Direction is made without prejudice to the regulator's power to make specific directions under the provisions of the Act. 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.

Commencement

- 5 This Direction has effect in relation to periods of account beginning on or after 1 April 2015. It supersedes the requirements of the *Accounting Direction for private registered providers of social housing 2012*. The 2012 Direction continues to apply to accounts for periods beginning before 1 April 2015 although earlier adoption of the 2015 Direction is permitted, and recommended in the case of early adoption of FRS 102.
- 6 This Direction applies to PRPs in terms of the preparation of their accounts¹ and to profit-making PRPs only in so far as their accounts relate to social housing activities².
- 7 The regulator directs:
- 7.1 In accordance with section 177(4) of the Act, that PRPs must constitute and present a DPF in their accounts in accordance with paragraph 29 of the Schedule.
- 7.2 In accordance with section 127 of the Act as follows, every PRP must prepare their accounts:
- a. If a large PRP, so that:
 - (i) If they are a non-profit PRP, information is shown in accordance with Part 1 of the Schedule;
 - (ii) If they are a profit-making PRP, information is shown in accordance with Part 1 of the Schedule but only in so far as its accounts relate to social housing activities.
 - b. For all PRPs (whether or not a large PRP), so that:
 - (i) If they are a non-profit PRP, information is shown in accordance with Part 2 of the Schedule;
 - (ii) If they are a profit-making PRP, information is shown in accordance with Part 2 of the Schedule but only in so far as its accounts relate to social housing activities.
- 8 Unless required otherwise in this Direction, a PRP will still comply with this Direction if:
- 8.1 Where information is required in a specified form, the PRP prepares that information in a form substantially to the same effect as that specified;
- 8.2 Where the PRP is the parent organisation within a Group structure, that PRP prepares consolidated financial statements where it is permitted by legislation and financial reporting standards to do so;

¹ Housing and Regeneration Act 2008 s127(1)

² Housing and Regeneration Act 2008 s127(2)

- 8.3 Differences to the requirements of this Direction are required in order to comply with the applicable laws, regulations and accounting standards and associated guidelines (including SORP); and/or
- 8.4 More information is given than is required by this Direction.
- 8.5 Save as is indicated otherwise OR in relation to paragraphs 28 and 29 of the Schedule Part 2, 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.

The Schedule to the Accounting Direction for private registered providers of social housing 2015

Part 1

See paragraph 7 of the Direction: every large PRP must prepare their accounts so that the information in Notes A and B below is shown (in relation to profit-making PRPs, only in so far as its accounts relate to social housing activities)

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

	Turnover	Cost of Sales	Operating Expenditure	Operating Surplus / (Deficit)
	£	£	£	£
Social housing lettings (Note B)				
Other social housing activities:				
First tranche low cost home ownership sales				
Charges for support services				
Other				
Activities other than social housing activities				
Total				

Notes:

1. Material items of social housing activity should be separately identified, in particular surpluses on the disposal of properties.
2. Where material sums are involved, additional analysis should be provided. This might, for example, distinguish between market rent, student accommodation or other significant areas of income such as surpluses on the disposal of property other than social housing.

Note B – Particulars of turnover and operating expenditure from social housing lettings

	General needs housing	Supported housing and housing for older people	Other ³	2XX1 Total	2XX0 Total
Income	£	£	£	£	£
Rent receivable net of identifiable service charges ⁴					
Service charge income					
Amortised government grants ⁵					
Government grants taken to income ⁶					
Other grants					
Turnover from social housing lettings					
Operating expenditure					
Management					
Service charge costs					
Routine maintenance					
Planned maintenance					
Major repairs expenditure					
Bad debts					
Depreciation of housing properties					
Impairment of housing properties					
Other costs					
Operating expenditure on social housing lettings					

³ Additional categories of social housing may be included where appropriate for the PRP

⁴ Rent receivable should be computed net of any voids

⁵ Amortised government grant as required under the accrual model as defined in FRS 102

⁶ Government grant taken to income as required under the performance model as defined in FRS 102

**Operating surplus/(deficit)
on social housing lettings**

Void losses (being rental
income lost as a result of
property not being let,
although it is available for
letting)

Part 2

See paragraph 7.2 of the Direction: all PRPs must prepare their accounts so that information is shown in accordance with this Part 2 of the Schedule (in relation to profit-making PRPs, only in so far as its accounts relate to social housing activities).

Other information to be shown in the financial statements

Establishment of private registered provider

- 1 A statement of the legislative provisions under which the PRP of social housing is established.

Financial reporting standards

- 2 Whether the accounts have been prepared in accordance with relevant financial reporting standards; where applicable, SORP; and this Direction. Particulars of and reasons for any material departures from those should be stated.

Accounting policies

- 3 PRPs 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. Where material, accounts should clearly set out policies in relation to:
 - Treatment of government grant and financial assistance;
 - Recognition and measurement of financial instruments;
 - Valuation of housing and other properties including the use of fair values or deemed cost (as defined in FRS 102) within the PRP's financial statements;
 - Property, plant and equipment; and
 - Liabilities in respect of multi-employer pension schemes.

Analysis of intra Group transactions between PRPs and non-PRPs

- 4 Every PRP shall demonstrate a transparency in the flow of funds, allocation of overheads and transactions between registered and unregistered entities within the Group.
- 5 Where a PRP transacts with an associate, subsidiary or other Group member which is not a PRP or is an unregistered entity, financial statements prepared shall:
 - describe the basis of any significant apportionment, recharge or allocation of turnover, costs, assets and liabilities between the PRP and the other party;
 - specify in aggregate the turnover, costs, assets or liabilities which have been so apportioned or allocated; and
 - specify which associates, subsidiaries or other Group members have been involved in the apportionment or allocation.

Narrative reporting

- 6 The financial statements should be accompanied by a narrative report applicable to the constitutional structure of the PRP. This may be a strategic⁷ report or Directors' report (or equivalent) covering the development and provision of social housing and social housing activities for the period.
- 7 Larger PRPs are expected (in this respect taking a higher limit of at least 5,000 homes) to produce a strategic report. Smaller PRPs are encouraged to publish a report commensurate with the size of the business. The report should provide a balanced and comprehensive but concise analysis consistent with the size and complexity of the business of the:
- PRP's development and performance during the financial year
 - effects of material estimates and judgements upon reported performance
 - principal risks and uncertainties facing the PRP, including factors arising from subsidiaries or joint ventures
 - main trends and factors underlying the development, performance and position of the PRP (or Group) and which are likely to affect it in the future
- 8 The PRP should undertake and publish within its narrative report an assessment of the performance of the PRP 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. Where providers have published a separate, more detailed self-assessment than that included in the narrative report, this should be clearly signposted in order to ensure transparency for stakeholders.
- 9 PRPs should undertake an assessment of the PRP's compliance with the Governance and Financial Viability Standard at least once a year and the PRP must certify compliance with the standard within the narrative report or explain if not. Any non-compliance identified since the previous report should be explained. The code of governance that has been adopted by the PRP should also be disclosed.

Extension of definition of Director

- 10 In paragraphs 11 to 19 below, "Director" also includes the Chief Executive and any other person who is a member of the executive management team, or its equivalent, of the PRP.

Key management personnel

- 11 Remuneration paid to key management personnel in relation to the period of account or, where no such remuneration are so payable, a statement to that effect. The aggregate amount disclosed should separately identify sums paid to non-executive Board members, where remunerated. If non-executive Board members are not remunerated a statement should be made to this effect.

⁷ [FRC Guidance on the Strategic Report](#)

- 12 The remuneration payable to the highest paid Director in relation to the period of account, excluding pension contributions.
- 13 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. This should also include compensation for loss of office.
- 14 Details of the nature of the Chief Executive's or equivalent'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; and
 - (d) whether he or she has an individual pension arrangement (including a personal pension) to which the PRP or any of its subsidiaries makes a contribution, and if so, the aggregate amount of contribution made by the PRP and its subsidiaries.
- 15 In paragraphs 11 to 14 above, remuneration includes payments in respect of a Director's services as a Director of the PRP or the Director's services (while a Director of the PRP) in connection with the management of its affairs or the affairs of any subsidiary undertaking of the PRP, whether those amounts are payable by the PRP 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; and
 - (e) the estimated money value of any other benefits otherwise than in cash.
- 16 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).
- 17 The aggregate amount of Directors' or past Directors' pensions 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 PRP or any of its subsidiary undertakings, and other pensions.

Consideration for Directors' services

- 18 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 PRP, or (while a Director of the PRP) in connection with the management of the affairs of the PRP or the affairs of any subsidiary undertaking of the PRP. "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 PRP or any of its subsidiary undertakings.
- 19 In paragraph 18 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

- 20 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 PRP.

Social housing turnover and costs

- 21 Where the information in Part 1 of this Schedule has not been provided because the PRP is not a large PRP, 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, capital grants and financial assistance receivable from whatever source;
 - (d) social housing activity expenditure;
 - (e) operating surplus/deficit and net surplus/deficit from social housing activities; and
 - (f) void losses (being rental income lost as a result of property not being let, although it is available for letting).

Financial assistance and other government grant receivable

- 22 The total accumulated amount of financial assistance and other government grant received or receivable at the date of the statement of financial position, showing the extent to which amounts have been recognised in the Statement of Comprehensive Income or are held as deferred income.

External auditors

- 23 The amount of remuneration, exclusive of VAT, payable in the period of account including sums payable in respect of expenses, of the PRP's external

auditors in their capacity as such, including the basis of any apportionments of cost to the PRP, if applicable.

- 24 The amount of any remuneration, in relation to the period of account exclusive of VAT, including sums payable in respect of expenses, of the PRP'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 sections 256 and 494 of the Companies Act 2006.

Share capital

- 25 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.

Creditors including Recycled Capital Grant Fund

- 26 In respect of each item shown under creditors in the PRP's statement of financial position:
- (a) the aggregate amounts of any instrument included under that item in respect of which any security has been given by the PRP together with an indication of the nature of the security given;
 - (b) where the nature of the liability is debt, a summary of the main elements, showing terms of payment or repayment, and the rates of interest payable on the debt; and
 - (c) the aggregate amount of adjustments made to the carrying value of debt in respect of finance costs, discounts and premia.
- 27 If it is not practicable to comply with paragraph 26(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.
- 28 In respect of the RCGF, information as below, which may be (but does not have to be) set out in the format shown in Annex 2. Any amount is to be considered material:
- (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 RCGF.
 - (b) the source and use or allocation of funds should be disclosed; and
 - (c) the amounts which are outstanding for three or more years or otherwise potentially due for repayment to the Homes and Communities Agency or the Greater London Authority.

Disposal Proceeds Fund

- 29 PRPs must constitute the Disposal Proceeds Fund in the format shown in Annex 3. Any amount is to be considered material. The fund must show,

separately for sums arising from disposals inside and outside of the Greater London area:

- (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 DPF;
- (b) the source of funds;
- (c) the use or allocation of funds, separately identifying transfers to other PRPs; and
- (d) the amounts in respect of which the regulator may require repayment of sums in the DPF in accordance with the Disposal Proceeds Fund requirements.

Rent arrears

- 30 The aggregate amount of gross social housing rent arrears, the net present value adjustment where a repayment schedule is in place 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

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

Capital funding and commitments

- 32 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 which has not been contracted for; and
 - (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

- 33 Particulars shall also be given of any other financial commitments which have not been provided for and are relevant to assessing the PRP's state of affairs.

Accommodation owned and in management

- 34 The number of units of different types of social housing distinguishing between those owned and managed by the PRP at both the start and the end of the period of account. Information should include: general needs housing (differentiated between that let at social rent and Affordable Rent levels); supported housing; housing for older people; and low cost home ownership

accommodation (as defined in the Act section 70). This list is not exhaustive and PRPs must provide a full analysis appropriate to their operating circumstances.

Accommodation managed by others

- 35 Where social housing owned by a PRP is being managed on its behalf by another body, the number of units of social housing (which refers both to self-contained and non-self-contained homes and bed spaces) accommodation managed by other bodies at the start and the end of the period of account.

Related parties

- 36 Relationships between parents and subsidiaries and registered and unregistered 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 FRS 102, unless otherwise required to satisfy the requirements of paragraphs 4 or 5 of the Schedule.

Group structures

- 37 There shall be stated:
- (a) whether the PRP is required by statute to prepare consolidated group accounts;
 - (b) the name of the undertaking which is regarded by the Board as the ultimate parent undertaking of the PRP; and
 - (c) details of all entities either within the Group or with which the PRP is associated, along with details of which are registered with the regulator. Where this is disclosed within Group accounts of a parent that is registered with the regulator, this need not be repeated by every subsidiary.

Annex 1

Glossary of terms

Words and expressions used in this Direction shall, unless the context requires otherwise, have the following meanings:

“Associate” is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

“the Act” means the Housing and Regeneration Act 2008.

“Board” means the governing body of a PRP.

“Capital Grant” means the grants listed in section 77(3) of the Act and grants under section 27A of the Housing Act 1996.

“Chief Executive” means the person who has overall responsibility for the running of the day to day affairs of the PRP’s social housing activities.

“Director” means a member of the Board of the PRP.

“Disposal Proceeds Fund” or “DPF” means the fund shown separately in a PRPs accounts as required by section 177(1) of the Act, in respect of which the regulator has issued the Disposal Proceeds Fund requirements.

“Disposal Proceeds Fund requirements” means the document ‘Disposal Proceeds Fund: Requirements of the Social Housing Regulator 2015’ which sets out the regulator’s decisions on how it requires PRPs to operate a DPF.

“Financial assistance” means that provided by the Homes and Communities Agency and/or the Greater London Authority under section 19 of the Act or Section 333 ZE of the Greater London Authority Act 1999.

“FRS 102” means the Financial Reporting Standard applicable in the UK and Republic of Ireland as published and amended from time to time by the Financial Reporting Council.

“General needs housing” covers the bulk of social housing rental accommodation. It includes both self-contained and hostel/shared housing units and bed spaces. General needs housing is stock that is not designated for specific client groups or investment programmes.

“Group” in relation to a PRP means that body and its subsidiaries and associates (each as defined by section 271 of the Act) and includes those subsidiaries and associates whether or not they are PRPs.

“Housing for older people” means social housing 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.

“Key management personnel” has the same meaning as set out in section 33.6 of FRS 102, being ‘those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity’.

“Large PRP” means a PRP which owns more than 1,000 homes on the first day of the period of account.

“Private registered provider” and “PRP” has the meaning given in section 80(3) of the Act.

“Recycled Capital Grant Fund” and “RCGF” 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 Act and by the Greater London Authority.

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

“Social housing” has the meaning given in sections 68 and 77 of the Act .

“Social housing activities” means accommodation, facilities or services provided by a registered provider in connection with the provision of social housing or its management, as determined by the Board and as discussed in the Governance and Financial Viability Standard Code of Practice.

“Social housing lettings” means activities associated with social housing accommodation and housing services provided with that accommodation.

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

“Standards” means the standards set by the regulator using its powers under sections 193 and 194 of the Act.

“Subsidiary” is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as a parent).

“Supported housing” means social housing that is purpose designed or designated to provide support for a particular client group and which fulfils one or more of the following two conditions (if one or other of the conditions is not met, it will be general needs housing):

- 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.

Annex 2

Format for disclosure of RCGF balances

RCGF

Funds pertaining to activities within areas covered by:		HCA	GLA
		£000	£000
Opening balance		X	X
Inputs to RCGF:	Grants recycled	X	X
	Interest accrued	X	X
	Transfers from other PRPs	X	X
Recycling of grant:	New build	(X)	(X)
	Major repairs and works to existing stock	(X)	(X)
	Transfers to other PRPs	(X)	(X)
	Other	(X)	(X)
Repayment of grant to the HCA/GLA		(X)	(X)
Closing balance		X	X
Amounts 3 years old or older		X	X

Annex 3

Format for disclosure of DPF balances

DPF

Funds pertaining to activities within areas covered by:		HCA £000	GLA £000
Opening balance		X	X
Inputs to DPF:	Funds recycled	X	X
	Net PRTB receipts ⁸	X	X
	Proceeds for profit making PRPs from sales of stock previously acquired from non-profit PRPs ⁹	X X	X X
	Interest accrued		
	Transfers from other PRPs	X	X
Use/allocation of funds:	New build	(X)	(X)
	Major repairs and works to existing stock	(X)	(X)
	Transfers to other PRPs	(X)	(X)
	Other	(X)	(X)
Repayment of funds to the HCA/GLA		(X)	(X)
Closing balance		X	X
Amounts 3 years old or older		X	X

⁸ Preserved Right to Buy receipts in respect of stock transferred after 31 December 2014

⁹ Net proceeds of stock acquired or built by profit-making PRPs with proceeds of sale of stock previously acquired from non-profit PRPs **ONLY**

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