Regulator of Social Housing

Consultation on revised Accounting Direction

Decision Statement

January 2022

Contents

1. Introduction

1.1 The regulator published a consultation on the revised Accounting Direction[1] (AD) on 14 July 2021. The consultation closed on 21 September 2021.

1.2 This document provides a summary of the key areas of feedback and sets out the regulator's decision on the final Accounting Direction. The changes will come into effect for accounting periods commencing 1 January 2022 and later.

1.3 This document is not intended to be an exhaustive exploration of all responses received (all of which have been considered in reaching the conclusions set out in this Decision Statement), but a summary of the key issues and comments made. A list of respondents is provided in Annex 1.

2. Overview

2.1 The current Accounting Direction came into effect for accounting periods commencing 1 January 2019.

2.2 Following this we engaged with stakeholders on a number of issues identified through the 2019 consultation process[2]. The discussions with auditors, Private Registered Providers (PRPs) and other stakeholders have informed the proposals set out in the consultation materials for the 2022 Direction, to which this Decision Statement relates.

2.3 The principal areas of change in the revised Direction relate to:

- The removal of any Direction relating to the 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 supporting segmental reporting requirements in Part 1 of the Direction.
    - Note A (Particulars of turnover, cost of sales, operating expenditure and operating surplus)
    - 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] Consultation on proposed changes to the 2022 Accounting Direction - GOV.UK (www.gov.uk)
[2] Decision Statement: Accounting Direction 2019 - GOV.UK (www.gov.uk)

3. Summary of responses

3.1 A total of 26 responses were received – 24 were received via Microsoft Forms and two via email. Of the responses received via Microsoft Forms one was a duplication and therefore excluded, leaving a total of 25 responses.

3.2 Of the completed responses received – 22 were from PRPs, and three from statutory consultees; the Institute of Chartered Accountants in England and Wales (ICAEW), UK Finance and the Housing SORP making body.

3.3 The main themes arising from the consultation responses are listed below. Further detail and our response is set out in section 5.

- Segmental reporting in Part 1 reporting and IFRS8[3]
- Cost allocation in Part 1 Note B (Social Housing Lettings)
- Clarification of requirements for Part 1 Notes A & B
- Climate change and Environmental, Social and Governance (ESG) reporting.

4. Analysis of individual questions

Question 1

4.1 All respondents responded to this question

Table 1: Overview of response to Question 1

Question 1 overview	Yes	Yes %	No	No %
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? and • Are they consistent with reporting requirements where an operating segment report is produced to comply with IFRS8?	**19**	**76%**	**6**	**24%**

[3] International Financial Reporting Standards 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

4.2 The response to this question was positive with 19 (76%) respondents agreeing that the adoption of IFRS8 did not result in any issues in relation to or preventing reporting as required in Part 1 of the AD.

Of the remaining respondents:

- Two respondents did set out that the requirement under IFRS8 to report operating segments as reviewed by the Chief Operating Decision Maker could result in inconsistencies with segmental reporting as required by the regulator in Part 1 of the Direction.

- The remaining respondents commented that Part 1 Note A should be expanded to include additional disclosures and guidance to ensure operating surplus is reported consistently in financial statements. The treatment of gift aid, the revaluation of investment properties and impairment on construction were all mentioned as areas where there is diversity of practice.

Question 2

4.3 23 respondents responded to this question

Table 2: Overview of response to Question 2

Question 2 overview	Yes	Yes %	No	No %
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)?	**13**	**56.5%**	**10**	**43.5%**

4.4 Over half of the respondents (57%) agreed that the proposed AD adequately set out the reporting requirements in Part 1 Note B. However, this was the question which attracted the most comments with 10 (43%) respondents raising a number of issues:

- Three felt that either further guidance should be provided on cost allocations or that the Direction should require a disclosure of judgements.
- Three raised concerns around the consistency of reporting of service charge income and costs.
- Two expressed a preference for a separate disclosure of lease costs to align with the Electronic Annual Accounts (FVA).
- One responded that they would prefer to have void losses disclosed differently in Note A (currently rent is disclosed net of voids with the latter reported as a note).

Question 3

4.5 23 respondents responded to this question

Table 3: Overview of response to Question 3

Question 3 overview	Yes	Yes %	No	N/o %
Does the proposed Accounting Direction adequately support the Value for Money reporting requirements that must be published annually within the statutory accounts?[4]	**22**	**95.6%**	**1**	**4.4%**

4.6 The response to this question was very positive with 22 (95.6%) respondents agreeing that the AD supported the VFM reporting requirements.

4.7 The one negative response identified that due to the application of different accounting policies, comparison to peers was challenging and less meaningful.

Question 4

4.8 22 respondents responded to this question

Table 4: **Overview of response to Question 4**

Question 4 overview	Yes	Yes %	No	No %
Are there any areas of the proposed Accounting Direction that should be clarified, expanded on or removed?	**15**	**68.2%**	**7**	**31.8%**

4.9 In response to this question, seven respondents agreed that there were no areas of the proposed Direction that required clarification, expansion or removal. Of the 15 respondents that answered 'Yes', seven respondents referred back to comments made in response to previous questions and eight respondents mentioned the following issues:

[4] The regulator intends to include links to the VfM Standard and the Code of Practice within the proposed AD. 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.

- Four respondents had a preference for additional prescription and guidance for Notes A and B (including how to account for support services and development for sale).
- In the consultation two respondents commented that the AD should provide guidelines and expectations to climate change and ESG reporting.
- One respondent requested expansion of guidance on unit numbers (see Part 2 Residential accommodation owned and/or managed) to ensure there is consistency with other regulatory returns.
- One respondent referred to the threshold at which reporting is required on staff remuneration.
- One respondent mentioned cross referencing the AD to the Housing Ombudsman Complaints Handling Code.

Question 5

4.10 All respondents responded to this question

Table 5: Overview of response to Question 5

Question 5 overview	**Yes**	**Yes %**	**No**	**No %**
Does the proposed implementation date provide an adequate timescale for PRPs to introduce the requirements of the Accounting Direction?	**25**	**100%**	**0**	**0%**

4.11 All respondents responded positively to this question. Given the minimal changes, all agreed that it would be possible to implement the changes within the proposed timescale without difficulty.

Question 6

4.12 24 respondents responded to this question

Table 6: Overview of response to Question 6

Question 6 overview	**Yes**	**Yes %**	**No**	**No %**
Do you agree with these proposed changes?	24	100%	0	0%

4.13 The response to this was very high with all respondents agreeing with the proposed changes and a few respondents adding that their confirmation was subject to the responses made to previous questions.

Question 7

4.14 23 respondents responded to this question.

Table 7: Overview of response to Question 7

Question 7 overview	Yes	Yes %	No	No %
Do you have any other comments regarding the proposed Direction?	**3**	**17.4%**	**20**	**82.6%**

4.15 The majority (82.6%) of respondents had no other comments regarding the proposed AD. Of the three that had further comments, two were in relation to formatting and one response regarding climate change and ESG reporting.

Question 8

4.16 23 respondents responded to this question

Table 8: Overview of response to Question 8

Question 8 overview	Yes	Yes %	No	No %
Do you have any comments on our business engagement assessment including in relation to equality and diversity?	**0**	**0%**	**23**	**100%**

4.17 There were no comments raised regarding the business engagement assessment.

5. The regulator's response to the consultation – final position on the changes to the AD.

5.1 The following section seeks to address the major areas of feedback that we received in response to the consultation. It also outlines any areas of change to the AD following the consultation.

Segmental reporting and IFRS8

5.2 PRPs with listed debt follow IFRS8 and report on operating segments based on the management reporting structures.

- We acknowledge that there is scope for the Operating Segment report based on information as reviewed by the Chief Operating Decision Maker to be inconsistent with reporting requirement under Part 1 Notes A and B in the AD.

Regulator's response

- The regulator has a duty to carry out its functions in a way that minimises interference and is proportionate.
- For some PRPs adopting IFRS8 it may be appropriate to produce two different sets of segmental notes. However, a minority of providers report under IFRS8. For those that do, most include one segmental operating note, on the basis that the format required in Part 1 of the Direction is consistent with the information reviewed by the Chief Operating Decision Maker.
- Furthermore, the directions in Part 1 Notes A and B which require the separation of social from non-social housing activities will remain. This information is required by the regulator in order to fulfil its statutory obligations and form an opinion on social housing activities (Sec 127 Housing and Regeneration Act (HRA) 2008[5]).
- The requirement to produce Notes A and B has been emphasised in Part 8(iv) of the 2022 Direction.

[5] https://www.legislation.gov.uk/ukpga/2008/17/section/127

Cost allocation in Part 1 Note B (social housing lettings)

5.3 The AD is not prescriptive regarding the allocation of overheads or which accounting policies should be adopted.

- We have explored the option of including more detailed guidance in the AD for the apportionment of costs in Part 1 note B. However, we feel that:
    - It would not be possible to produce definitive guidance which would be applicable to every PRP. There would always be exceptions and our view is that a degree of judgement is inevitable.
    - The complexities of cost allocation would make any meaningful Direction prohibitively lengthy. The feedback we have received from stakeholders has made it clear that the Direction should be concise and succinct.
- We acknowledge that a range of allocation models are used by PRPs which may lead to a degree of inconsistency. However, in aggregate we do not believe the effect of this is significant in relation to our regulatory objectives.
- We have considered FRS102 paragraph 8.7[6] which requires disclosure in the notes to the financial statements concerning key assumptions. We do not believe it encompasses cost allocation to the degree that would allow the regulator to require the disclosure of such judgements. However, providers may disclose this information if they believe it would enhance reporting and be of use to stakeholders.

Regulator's response

- The proposed AD includes a link to the guidance produced by the regulator to support the submission of the Electronic Annual Accounts (FVA) return. Although not prescriptive or part of our Direction, this can be used for reference in respect of note B and as an aide to determine cost allocation.
- A line has been added to Note B for the separate identification of lease costs to ensure it is consistent with the FVA return template.
- No further guidance will be provided on cost allocation.

[6] Financial Reporting Standard 102 – Section 8 'Notes to the Financial Statements', Paragraph 8.7 'Information about key sources of estimation uncertainty'

Clarifying requirements in Part 1 Notes A and B

5.4 Accounting Direction notes A and B require PRPs to analyse the operating surplus/deficit reported in their SOCI.

- A number of income and expenditure items are specifically highlighted for inclusion within notes A and B, and providers are advised to separately identify any other material items of operating income or expenditure.
- A number of responses requested that further clarity be provided on the treatment of particular items with the Direction clarifying whether and/or how they should be disclosed within operating activities.

Regulator's response

- As part of the consultation, the definitions of Social Housing Lettings, Social Housing and Non-Social Housing were updated (see Glossary of the proposed AD) with a view to promoting greater consistency of reporting in Part 1 Note A.
- Paragraph 5.9B of FRS102 requires that if an entity elects to disclose 'operating profit', the entity should ensure that the amount disclosed is representative of activities that would normally be regarded as 'operating'. The regulator cannot give advice on what providers should be including within their own operating surplus; we believe this is a matter for PRPs to decide and agree with their external auditors.
- The notes section below Part 1 Note A have been amended to clarify that material items of operating activity should be identified. The list of disclosures this may include has been extended to include Property, Plant and Equipment (PPE), gift aid, and the revaluation of investment properties.

Environmental, social and governance reporting

5.5 The regulator acknowledges that increasingly providers are either required to report on their approach to ESG in their financial statements, or it is beneficial for them to do so. A number of respondents felt that the Direction would be a good place for the regulator to set out any expectations.

Regulator's response

- ESG information is not required by the regulator in fulfilling its statutory duties and is therefore outside the remit of the AD.
- No changes are proposed in the AD with reference to climate change and ESG reporting.

Value for Money

5.6 The strategic report accompanying the financial statements includes reporting of performance against VFM targets set by the provider and against metrics set out by the regulator, including how this performance compares to peers.

5.7 The regulator publishes data on the VFM metrics to help support the benchmarking undertaken by providers but due to timing cannot do so prior to publication of providers' accounts. Benchmarking against previous years' data can provide a valuable way for providers to assess how they are performing against their peers but may prove less valuable in years that are affected by one-off shocks in the operating environment.

Regulator's response

- The regulator views the VFM metrics as the best comparable measures to assess Value for Money across providers but acknowledges that there will be some variability in the measures due to differences in accounting policy choices. Where providers believe that differences in accounting policy are leading to material differences in performance in comparison to their peer group, they should continue to report the metrics on the basis outlined by the regulator but are free to outline the differences in the text of their reporting.

Our response to other issues raised

5.8 The following issues were not specifically highlighted in the consultation materials. However, they were included as other issues in response to questions 4 and 7.

- Rent will continue to be disclosed net of voids in Part 1 Note B to remain consistent with section 12.3 of the SORP[7] and the definition of revenue in Financial Reporting Standards.
- Service charge income will continue to be disclosed separately from rent in Part 1 Note B.
    - Service charge income will be separately identifiable for the majority of social housing lettings units. This information remains useful to stakeholders.
    - We recognise that some PRPs may experience challenges separating out the service charge element of income from Affordable Rents.
    - Where this is the case, this level of detail is not a requirement for the purposes of the AD but an exercise at the discretion of providers for their own monitoring purposes.

[7] Housing SORP 2018 update: Statement of Recommended Practice for registered social housing providers

- The Direction on Employee Remuneration is consistent with the Charities SORP[8] Para 9.30 including the requirement to report the number of employees whose total employee benefits are more than £60,000.
- Further guidance is not required in the AD on the impairment of assets as this is extensively covered in both the SORP and FRS102.
  - The AD provides a definition for social housing lettings and other social housing activities.
  - We would expect the reporting of the impairment charge to be consistent with the reporting of income and expenditure associated with the asset (i.e. if the asset is generating social housing lettings income then any impairment charge should be reported in expenditure for social housing lettings).
  - For assets under construction, a judgement is required by the PRP (based on the asset type) as to where the charge is reported in the SOCI.
- The regulator will not direct PRPs to report on the requirements of the Housing Ombudsman Complaints Handling Code. This is considered to be outside of the remit of the powers set out in HRA section 127.
- To help promote consistency between the regulatory returns and the requirements on 'Residential accommodation owned and/or managed' set out in Part 2 of the Direction, definitions from the Statistical Data Return of a number of key terms have been added to the Glossary section.

Final position – changes to the Accounting Direction

For accounting periods commencing from 1 January 2022, the Accounting Direction will be as set out in Annex 2.

[8] Charities SORP (FRS102): Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland

Annex 1: List of respondents to the statutory consultation on changes to the Accounting Direction

Castles and Coasts Housing Association
Catalyst
CHP
Citizen
Clarion Housing Group
Connect Housing
ExtraCare Charitable Trust
Flagship Housing Group Limited
Greatwell Homes
Housing SORP Making Body
ICAEW
Lincolnshire Housing Partnership
Magna Housing Association
Muir Group Housing Association
Optivo
Orwell Housing Association Limited
Peabody Group
Progress Housing Group Limited
Sanctuary Group
Soho Housing
South Lakes Housing
Southdown Housing Association
Sovereign Housing Association
Teign Housing
UK Finance

Annex 2: Accounting Direction for private registered providers of social housing 2022

See: https://www.gov.uk/government/publications/the-accounting-direction-for-social-housing-in-england-from-january-2022

Annex 3: Business Engagement Assessment

Title of proposal	**Statutory consultation on Changes to the Accounting Direction**

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 HRA 2008 which gives the regulator 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 PRPs' published accounts. This includes the VFM Standard, compliance with the Governance and Financial 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 Disposals Proceeds Fund (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.

- Whether 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 balances 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 the regulator to make a Direction to non-profit-making PRPs regarding 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 PRPs 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 to the AD are relatively minor. The presentation of some requirements (namely DPF) have been removed, no new reporting requirements have been added and further guidance has been provided which will lead to a net reduction in the regulatory burden placed on providers.

Impact on small businesses

The majority of the sector is comprised 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 1,000 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

The regulator 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, the regulator'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.

The regulator has not identified any impact on our public sector equality duty arising from the proposals. It is noted that providers may also be subject to the public sector equality duty when carrying out a public function. Therefore, it is possible that individual PRPs may also consider equality duties to ensure that their decisions support the requirements of the Equality Act 2010 and meet all aspects of the General Duty.

The regulator 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.

This publication is available at: www.gov.uk/rsh

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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.