

AT/PSC/mb

## **COPY OF FINAL ONLINE SUBMISSION**

14 February 2014

Dear Sir/Madam,

### **ICAS response to Housing SORP 2014**

We welcome the opportunity to contribute the views of our members. ICAS (The Institute of Chartered Accountants of Scotland) is the oldest professional body of accountants. We represent around 19,000 members who advise and lead organisations across the public and private sectors. The views of our members who specialise in the housing sector are summarised below.

Overall, the SORP is well written and comprehensive. Our responses to the specific questions in the invitation to comment are set out below.

#### **Question 1**

**Is there any section of FRS 102 that is not addressed in the SORP on which you feel additional guidance or interpretation is needed for the social housing sector?**

Yes. We understand that the SORP may no longer be the standalone document it once was and practitioners need to read FRS 102. Additional explanatory information such as technical notes and hyperlinks to FRS 102 would be helpful. .

#### **Question 2**

**Is there any section of FRS 102 that is not addressed in the SORP on which you feel additional guidance or interpretation is needed for the social housing sector?**

Yes. There may need to be changes to legislation to allow RSLs to apply the Charities SORP instead of the Housing SORP. As an example, the Charities Accounting Regulations (Scotland) 2006 state that an RSL must apply the Housing SORP (section 14(3)) and an Abbeyfield is classified as an RSL.

#### **Question 3**

**Do you agree with the restriction set out in paragraph 3.8 of the SORP to only permit a single Statement of Comprehensive Income in the presentation of a social landlord's income and expenditure?**

No. We are not convinced there is sufficient evidence for the SORP to remove the option of choice and would prefer that this choice is left open so that organisations can identify their preferred norm, unless additional compelling evidence arises through the consultation process to support the limitation of choices. The combination of the two statements on one means that surplus/deficit is not the final line which could potentially be more confusing for non-accountants. Surplus / deficit is the key figure in the accounts so it must be easily identifiable.

**Question 4**

**Do you agree with the principle that the SORP provides high level guidance on the content of a business review rather than prescribing the information and the format of the narrative reporting to be included in the financial statements? If not, please explain what additional guidance is required.**

Yes.

**Question 5**

**Do you consider there is any further information on narrative reporting that social landlords should be required to include in their financial statements which is not set out as a requirement in the SORP?**

None.

**Question 6**

**Does Section 6 of the SORP provide sufficient guidance to understanding the general principles and requirements of Sections 11 and 12 of FRS 102? If no, please provide suggestions on further guidance needed.**

No. Examples are needed for what is the most complex area of FRS102/SORP.

We appreciate accounting treatments will vary but suggest that as a minimum there could be three examples provided within the following headings summarising the treatment of each as follows, with a very clear caveat that the terms and conditions of each arrangement must be looked at individually to determine treatment. This would at least provide RSLs with a starting point.

- 1) Basic Instrument
- 2) Non-basic Instrument
- 3) Hedging

**Question 7**

**Do you agree with the conclusion of the SORP Working Party that defining 'held for social benefit' will risk being too narrow and prescriptive in terms of what should be classified as property, plant and equipment and will not be able to take account of the various different tenure types in the housing sector currently and in the future?**

Yes.

**Question 8**

**Do you agree with the principles set out in paragraphs 11.13 to 11.16 of the SORP in relation to the recycling of grants? If no, please explain why not and provide suggested alternative treatment**

Yes.

**Question 9**

**Is the worked example accompanying this section of the SORP sufficiently clear to explain how such transactions must be accounted for?**

Yes.

**Question 10**

**Do you agree with the approach taken in the SORP for accounting for government grant?**

Yes. Further clarification is needed on other non-government grants as per paragraph 13.26.

**Question 11**

**An alternative approach would be to allow a choice of accounting treatment as set out in Section 24 of FRS 102 and leave it up to individual social landlords to make a choice over accounting for government grant using the accrual model or performance model regardless of their accounting policy for housing properties. To allow a complete choice will lead to a greater degree of accounting inconsistency in the sector. Do you believe this alternative approach is more appropriate for the housing sector?**

No.

**Question 12**

**Do you agree with the approach taken in the SORP in amortising government grant for housing properties over the useful economic life of the property's structure?**

No.

**Question 13**

**If not, do you agree with the alternative approach of a composite amortisation rate based on the structure and individual components of the housing property?**

No. The amortisation of grant is a significant issue with the high grant levels in Scotland.

Using the example in the SORP, but with a much higher grant level (75%), after 30 years the deferred income balance (liability) is higher than the fixed asset net book value after 30 years.

This has the potential to make the financial statements mis-leading to users, to affect loan covenants in terms of solvency (technically insolvent?) and could make Scottish RSLs financial statements look dramatically different to English RSLs financial statements in this respect.

More information on exactly what a composite amortisation rate would entail is required.

**Question 14**

**Is further guidance required for the measurement of recoverable amount?**

No. We agree with the technical analysis that depreciated replacement cost is not an appropriate measurement model for recoverable amount for normal social housing assets. Also we agree that EUV-SH is the most appropriate measure of fair value however we consider that the basis of determining EUV-SH should be reviewed with the possibility of taking into account other market factors. We also consider that a review should be undertaken of value in use for the sector and whether individual calculations of value in use might be used to support the carrying amount.

Value in use according to para 27.15a should include the cashflows from using the asset together with its ultimate disposal therefore a review of this calculation may be helpful in assessing impairment within the sector.

**Question 15**

**Do you agree with the inclusion of unamortised grant when calculating the carrying amount of housing properties as set out in paragraph 14.19 of the SORP? If not, please explain why not.**

Yes.

**Question 16**

**Do the paragraphs above provide clear guidance on the accounting for stock swap transactions?**

Yes.

**Question 17**

**Does the worked example that follows these paragraphs make it clear how it is expected that such transactions would be reflected in the financial statements? If not please explain any additional guidance that is required for accounting for stock swap.**

Yes.

We hope this is helpful.

Yours faithfully,

ALICE TELFER  
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ICAS