Minutes of the SORP Working Party meeting of 11:00 am, Monday 7 December 2020

Location: Video-conference

Chair: Rob Griffiths (national housing federations)

Present:
Andy Speer (national housing federations)
Anna McOwen (national housing federations)
Faye Gordon (national housing federations)
Guy Flynn (professional advisor)
Harry Mears (professional advisor)
Jonathan Clarke (professional advisor)
Maria Hallows (professional advisor)
Michael Rafferty (national housing federations)
Lindsey Dryden (national housing federations)
Omadevi Jani (professional advisor)
Paul Edwards (national housing federations)
Sarah Sheen (professional advisor)
Sarah Smith (national housing federations)
Stuart Fisher (national housing federations)

Observers:
Easton Bilsborough (FRC)
Murray Smith (Scottish Housing Regulator)
Mark Davie (M&G)
Mark Windridge (Regulator of Social Housing)
Andrew Wilson (Regulator of Social Housing)

Secretariat:
John Butler, National Housing Federation
Julia Poulter, Crowe UK

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1. Apologies

Apologies were received before the meeting from Amerjit Barrett, Phil Cliftlands, Nigel Gregory and Murray Smith.

- Mark Davie from M&G was welcomed as an observer to this meeting.

2. Minutes of the meeting of 30 September 2020

- Easton sent some minor changes to the minutes, Lindsey Dryden had sent her apologies for the meeting and Paul Edwards confirmed that he was in attendance

- Rob Griffiths and Sarah Smith will review the updated minutes before they can be finalised. **Fed/Rob G/Sarah Smith**

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- The minutes of the meeting were otherwise agreed as an accurate record of the meeting.

3. Matters arising

- There were no matters arising.

4. IFRS 16 assessing the treatment

- The Group discussed Sanctuary's treatment of IFRS 16 in their 2020 accounts.

- KPMG are Sanctuary's auditors but Harry Mears is not the signing partner.

- HM noted that direct comparisons cannot necessarily be made between the treatment adopted by Sanctuary under IFRS and that to be followed in the future by other HA's in accordance with FRS102. For example, investment properties can be held at cost under IFRS and not under FRS102, and thus there will be areas where there are clear differences in terms of interpretations and treatments arising. It was agreed that further consideration would be given at the next Committee meeting as to how to build the lessons learned by Sanctuary into the proposed approach that is being developed by the SORP working party. — **Harry Mears**

- If shared ownership agreements are viewed as long term contracts these transactions would be treated under IFRS 15, not 16.

- The only existing exemptions under IFRS 16 are for low value leases (under $10k) or leases less than 12 months. Student leases are under 12 months in duration in the majority of instances so these should fall under this exemption.

- The FRC stated last year that the SWP should think about the business case to maintain the existing treatment for shared ownership accounting.

- If we have to re-state these homes to investment properties this will be a significant issue as FRS102 requires those properties to be held at valuation.

- Lot of moving parts here, FRC may look to simplify the principles in IFRS 16. At the discussion last year, between the FRC and members of the SWP, it became clear that for shared ownership the problem is the split asset where one side is an asset, the other a lease. The standard does not have provision

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for this. Would the treatment in the new SORP hold under the principles in the new standard?

- You have to review the shared ownership agreement to understand that there are 2 separate parts to shared ownership.

- A call will be held after this meeting to discuss if a paper should be provided on the implications of IFRS 16 for the next meeting. **Fed/Crowe/Rob Griffiths/Sarah Smith**

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5. Stakeholder engagement

- The NHF introduced the paper that focused on 2 main stakeholder groups, tenants and funders, and introduced an IFRS 16 sector engagement.

Funders

- The SWP would like to engage funders more consistently about accounting changes.

- Mark Davie highlighted the potential use of a webinar for funders to ensure a greater understanding of housing association accounting by this key stakeholder group. UK Finance should be engaged to help deliver this. **Fed**

- At the recent ICAEW social housing panel a discussion was held about the interaction between lenders' covenants and the extent to which these did or did not use audited information from the organisation's financial statements.

- Any adjustment that is required to calculate the covenant that is not part of the financial statements would lead to unaudited covenants.

- Banks should only require auditor certification if they do not trust the housing association. An ex funder on the group noted they had to review 3 pages of adjustments from the financial statements to reach the covenant figures, when at one of the sector's lenders.

- Discussions at UK Finance by the sector's lenders about covenants are not possible because of concerns about anti-competition regulations and legislation.

- The SWP should not try and achieve standardisation across all the sector's covenants, as they are all unique. It would be better to influence global changes.

Tenants

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- The tenant steering group at one of the housing association's present was not interested in benchmarking and so it was felt that it would be unlikely that they would consider the Housing SORP to be of relevance.

- The Regulator of Social Housing is uniquely positioned to influence the Accounting Direction for the benefit of tenants.

IFRS 16 sector engagement

- Civitas and Triplepoint are the vast majority of the lessors in the supported housing sector.

- The group agreed with the engagement strategy as set out in the paper. **Fed**

7. Accounting direction

- A revised accounting direction (AD) was issued in January 2019 with the commitment for a full review and consultation during 2021.

- Issues raised in discussions with the sector last year. A working group has been set up, met for first time the Friday before this meeting. This AD Working Group (ADWG) will consider the issues raised last year.

- 3 more sessions are planned with ADWG in Spring 2021. First of these will be on IFRS 8 with the other sessions covering narrative reporting, vfm and ESG reporting.

- A number of the members of the SWP are volunteers on the ADWG.

- This could be a very useful piece of work and it gives us the opportunity to consider what we want to report and what is useful to report in financial statements.

- For example should reporting against ESG criteria and the White Paper be included in the Annual Report noting accounts are long enough already. The RSH' is not expecting to include these reporting areas in the revised AD.

- Funders are working on the assumption that ESG reporting will be in a separate report to the financial statements.

- The front end of the Annual Report is reviewed for material inconsistencies with the financial statements. A full audit is not carried out.

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- The SORP is not the tool to use to require ESG or White Paper reporting. Keep the reporting from the SORP focused.

- The AD meetings will be discussing the interaction between vfm and ESG metrics.

- Local authorities produce not just financial statements, but information for service users. Housing associations are not electorally accountable however.

- The issue in relation to segmental reporting is that some housing associations produce 2 segmental reporting disclosures:
  i) The AD requires social housing asset segmental reporting
  ii) Those with listed debt are required to report under IFRS 8.

- Another verbal update about the AD will be provided by the RSH at the March 2021 meeting. **Fed**

7. Pension disclosures

- Before the change in 2019 that enabled housing associations to report their Social Housing Pension Scheme (SHPS) deficits under the defined benefit (DB) method housing associations could report the cash changes each year. This is now hard to do with DB accounting because all the pension numbers are reported below the operating surplus line.

- There are two or three possible solutions to this problem:

  1) If this is immaterial remove it, and therefore stop making an adjustment.
  2) Present additional disclosures (for example the amount paid to SHPS in the year).
  3) Provide an auditor certification of numbers that do not emanate from the financial statements (and are therefore unaudited).

- Housing associations should opt for option 2).

- FRS 102: "shall disclose (para 28.41)…:

a) A general description of the type of plan, including funding policy. This includes the amount and timing of the future payments to be made by the entity under any agreement with the defined benefit plan to fund a deficit (such as a schedule of contributions)."

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8. RtSO considerations

- Julia Poulter provided a paper on the new Shared Ownership model that will apply to all shared ownership homes delivered through the new Affordable Housing Programme and s.106 agreements.

- The first change is the reduction in the first tranche, from 25% to 10%. This is a change in numbers, not in accounting treatment. Therefore no impact

- The second change is the 10 year repair free period where the RP will be required to cover up to £500 per annum for certain repairs. Should there be a provision, accounted for as a percentage of what has been disposed of?

- The repair free period is capped at £500 a year. Is there an expectation this will be fully used?

- At the moment housing associations do not provide for future costs. Should we give them an annual grant of £500?

- We should not recognise a provision for major works when there will be no replacements in the first 10 years of the properties life.

- How would we assess the need for a provision when we don't carry out normal social housing repairs?

- Major repairs – the treatment of the £500 annual cost could require consideration for all shared ownership homes for costs which the RP retains an obligation.

- Worked examples at the next meeting. **Crowe**

- The third change is the reduction to 1% stair-casing – no change to accounting.

- However, the sale of 1% will be linked to an indexation point, and therefore it could be possible to value the remaining staircase against the House price Index (HPI).

- This information may result in an indicator of impairment, but a review would be required annually anyway if there is a trigger.

- CIPFA are running a consultation on IFRS 16 and would send this to the secretariat. **CIPFA**

- Any other models not covered by existing guidance?

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	• Housing older people: extra care. Look at this in advance of next meeting. Draft guidance as well.	**Crowe**
	• What would be the procedure for the SWP to produce guidance on the new shared ownership model. Would it still need approval by the Technical Advisory Group at the FRC.	
	• Process – reviewed by FRC staff and FRC executive if existing guidance is used; if new guidance is drafted, it would need approval by the new version of TAG.	
	• Final definition of the new shared ownership model will be published in the new year. If we draft guidance, Easton will assess approval process.	
8.	**Any Other Business**	
	• The FRC is updating the SORP policy that sets out the requirements for SORP Making Bodies (annual reviews, procedure etc)	
	• The FRC is also consulting on Practice Note 14 (auditing guidance), but other stakeholder groups were engaged about this	
	9. Future meetings	
	11:00 – 13:00 Tuesday 9 March 2020, VC.	
	11:00 – 13:00 Tuesday 8 June 2020, Lion Court and/or VC	
	11:00 - 13:00 Tuesday 7 September 2020, Lion Court and/or VC.	