

An update on accounting for the Social Housing Pension Scheme

This document updates on some developments that may lead participating employers of the Social Housing Pension Scheme (SHPS) to change the way in which they account for the defined benefit (DB) section of SHPS.

The SORP Working Party is developing a methodology to understand if necessary information could be determined that will enable all housing associations that are members of SHPS to account for their portion of the SHPS deficit as a DB scheme.

The SORP Working Party is undertaking this on behalf of the sector to reduce the financial and administrative burden on housing associations as it is likely that recent developments in the sector may require every housing association to individually approach a professional actuary to calculate their portion of the SHPS deficit.

Background

Prior to the transition to Financial Reporting Standard (FRS) 102, housing associations were able to take advantage of a multi-employer exemption in FRS 17, and as a consequence SHPS deficits were not reflected in the sector's accounts. Instead, housing associations accounted for SHPS as if it was a defined contribution (DC) scheme— essentially for the pensions contributions paid in the year only.

Since the transition to FRS 102, a similar exemption allows housing associations to account for SHPS as a DC scheme, and in doing so bring onto the balance sheet the present value of the deficit recovery plan. This treatment recognises that information is not available from The Pensions Trust (TPT) to allocate scheme assets between participating employers and therefore it is not possible to obtain sufficient information to account for SHPS as a DB scheme.

For completeness, the DC section of SHPS is not included in this review. In addition, accounting treatments under other accounting standards such as International Accounting Standard (IAS) 19 are also out of the scope of this review.

Recent developments

In spite of the FRS 102 exemption, it is the SORP Working Party's understanding that a number of housing associations are considering approaching professional actuaries to estimate their share of the SHPS assets, liabilities and hence SHPS deficit. These housing associations are confident that as a result of this process they will have sufficient information to account for SHPS as a DB scheme for the financial year ending 31 March 2018 and beyond.

Auditors on the SORP Working Party noted that if some housing associations were able to adopt an approach to account for SHPS as a DB scheme, this may indicate that sufficient information was more widely available to enable other employers to also do so. This would depend on individual employer circumstances and materiality.

Meeting with TPT and TPT's actuaries

Members of the SORP Working Party recently asked TPT and TPT's actuaries, Jardine Lloyd Thompson (JLT), for details of the information available. As a result, the SORP Working Party has started work on developing a methodology that may enable sufficient additional information to be calculated or estimated to achieve DB accounting.

In addition, the SORP Working Party will consider how assurance could be provided on the methodology and information produced for housing associations centrally, for housing association auditors to then rely on. This will reduce the added cost of every housing association auditor requiring assurance on each set of housing associations' SHPS figures.

Costs

The SORP Working Party believes there will be four costs associated with this work

- The development of the initial methodology – this is likely to take several weeks and will involve a professional actuary and liaison with TPT, JLT and several audit firms.
- The implementation of the framework for the provision of the information (e.g. the development of a TPT online system).
- The extra costs for TPT to run the methodology on a periodic basis.
- The cost of providing central assurance on the annually generated information.

While the above would be a matter for the SHPS Committee to engage employers on, we anticipate that these costs will be shared among those organisations that are members of SHPS.

The SORP Working Party expects the costs will likely vary to some degree by the size of each housing association's deficit, however the exact cost framework still needs to be developed. The first year cost will be higher than the following years because of the added expense of developing the methodology, implementing the framework for the solution, and calculating the position for prior years. The overall cost of this approach for the sector will be significantly lower than the outlay if each housing association separately engaged a professional actuary to generate the information and the added cost of having this information audited.

Find out more at our new Finance Conference session

A new session at the [Federation's Finance Conference](#) has been developed to provide further details on the progress with the methodology (a SORP Working Party meeting is being held the day before the conference to discuss the methodology).

You can hear about developments that might enable SHPS DB schemes to be fully accounted for as DB schemes on Balance Sheet. This session will go through the current treatment of the SHPS DB scheme under FRS 102 and progress being made on the development of a methodology to enable full DB accounting, and what this could mean for your organisation's pensions disclosures.

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Speakers will include members of the SORP Working Party, and the session will be chaired by Robert Griffiths, Chair of the SORP Working Party and Chief Financial Officer, and Deputy Chief Executive of Longhurst Group.

Members of the Federation will have further opportunities to hear about the latest developments of this change through other, future communications (e.g. webinars, seminars, email updates).

Further details about the SORP Working Party, including its membership, [can be found on our website](#).

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