



**MEETING: SORP WORKING PARTY MEETING**

**Meeting date:** Thursday, 17 September 2015  
**Meeting to start at 11:00 am with lunch at 13:15**

**Venue:** PwC's Embankment Place Office, London **(map provided)**

**Chair:** Rob Griffiths (professional advisor)

**Attendees:** Amerjit Barrett (national housing federations)  
Anna McOwen (national housing federations)  
Andrew Malcolm (national housing federations)  
Andrew Newberry (national housing federations)  
Andy Speer (national housing federations)  
Avril Simcox (national housing federations)  
Charles Brotherton (professional advisor)  
Chris Wilson (professional advisor)  
Jack Marshall (national housing federations)  
Jonathan Clarke (professional advisor)  
Lindsey Dryden (national housing federations)  
Mark Potter (national housing federations)  
Maria Hallows (professional advisor)  
Nigel Perryman (professional advisor)  
Phil Cliftlands (professional advisor)

**In attendance:** Andy Smith (Savills)  
Richard Petty (JLL)

**Observers:** Jenny Carter (Financial Reporting Council)

*National Housing Regulators*

Debbie McKibben (Governance and Inspection Unit, Department  
for Social Development, Northern Ireland)  
Naheed Hussain (Welsh Assembly Government)  
Nigel Gregory (Scottish Housing Regulator)  
Philip Winter (HCA – Social Housing Regulator)

**Secretariat:** Guy Flynn (PwC)  
Joseph Carr (National Housing Federation)  
John Butler (National Housing Federation)

**Apologies:** Anne O'Meera (national housing federations)  
Jenny Brown (professional advisor)  
Sarah Smith (national housing federations)  
Sophie Geraghty (Financial Regulation Manager, Housing  
Agency, Republic of Ireland)

## AGENDA

### Item      Description

1. **Apologies and welcome** Rob Griffiths
2. **Valuation of social housing property** (presentation – 60 minutes) Andy Smith, Richard Petty
3. **Minutes of the meeting of 16 June 2015** (papers attached) Rob Griffiths
4. **Matters arising** Rob Griffiths
5. **Impairment of social housing property** (papers attached) Joseph Carr
6. **SMB Annual Review 2015** (papers attached) Guy Flynn
7. **Any other business**
8. **Subsequent meetings of the SORP Working Party**
  - 11:30 am Thursday 10 December 2015, PwC, City Board Room, Embankment Place, London
  - 12:30 pm Tuesday 15 March 2016, ACC, Liverpool

### FRC 2015 meeting dates

Committee on Accounting for Public-benefit Entities (CAPE)	Accounting Council	Codes & Standards Committee
Tue 1 Dec 2015	17 Dec 2015	

**Meeting:** SORP Working Party  
**Date:** 26 June 2015  
**Prepared by:** Sam Wotton  
**From:** Rob Griffiths  
**Subject:** Minutes of the meeting of Tuesday, 16 June 2015

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**Location:** Magenta Room, Lion Court, 25 Procter Street, London, WC1V 6NY

**Chair:** Rob Griffiths (ACCA)

**Present:** Amerjit Barrett (national housing federations)  
Anna McOwen (national housing federations)  
Anne O'Meera (national housing federations)  
Andrew Malcolm (national housing federations)  
Andrew Newberry (national housing federations)  
Andy Speer (national housing federations)  
Avril Simcox (national housing federations)  
Charles Brotherton (professional advisor)  
Jack Marshall (national housing federations)  
Jenny Brown (professional advisor)  
Jonathan Clarke (professional advisor)  
Lindsey Dryden (national housing federations)  
Mark Potter (national housing federations)  
Maria Hallows (professional advisor)  
Nigel Perryman (professional advisor)  
Phil Cliftlands (professional advisor)  
Sarah Smith (national housing federations)

**Observers:** Jenny Carter (FRC)

*National Housing regulators*

Debbie McKibben, Governance and Inspection Unit,  
Department for Social Development (Northern Ireland)  
Naheed Hussain (Welsh Assembly Government)  
Nigel Gregory (Scottish Housing Regulator)  
Phil Winter (HCA – Social Housing Regulator)  
Sophie Geraghty, Financial Regulation Manager,  
Housing Agency (Republic of Ireland)

**Secretariat:** Faye Gordon (PwC)  
Fiona Westwood (PwC)  
Sam Wotton (National Housing Federation)

**Minute no****Action****1. Apologies**

- Joseph Carr and Ken Youngman.

**2. Minutes of the meeting of 16 September 2014**

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

**3. Matters arising**

- There were no matters arising.

**4. Constitution, membership, Terms of Reference and meeting etiquette**

- The chair welcomed all the new members to the SORP Working Party (SWP) and thanked those that had left for their contributions to the SORP 2014.
- The chair presented the paper on the updated governance arrangements for the SORP-making process which have been revised and agreed upon by the Chief Executives of Community Housing Cymru (CHC), the National Housing Federation (NHF), the Northern Ireland Federation of Housing Associations (NIFHA) and the Scottish Federation of Housing Associations (SFHA), in order to meet the Financial Reporting Council's (FRC) set criteria.
- The Housing SORP-making Body (SMB) is responsible for developing and maintaining the Housing SORP and ensures guidance in the SORP is supportive of the sector's business plan.
- The SMB will meet twice a year and membership is comprised of the Chief Executives from the four national housing federations, the Chair of the SWP and a professional advisor which is independent of the SWP.
- The SMB professional advisor will be appointed in the next few weeks and the closing date for applications was 12 June 2015.
- The SWP is responsible for advising the SMB on issues arising from the UK accounting framework relating to housing associations and carrying out the detailed work of developing, drafting and maintaining the SORP.
- The SWP will report upwards and make

recommendations to the SMB, which is a structure that was not formally adopted in the development of previous versions of the Housing SORP.

- The FRC previously permitted membership of the SWP to be expanded as an exception to cope with the increased workload that was required in relation to FRS 102. It has now been agreed that membership will be reduced to a maximum of 20 to meet FRC guidelines. There is currently one English housing association vacancy, which may be appointed in future.
- The SWP can submit responses to consultations independently of the SMB. It was suggested that the purpose of the SMB having a professional advisor independent of the SWP is to help resolve differences of opinion between the two groups.
- It was noted that the SWP rarely vote on issues, and that historically decisions have been taken after a consensus has emerged from general discussion.
- It was suggested that the SMB Terms of Reference do not fully describe the role of the SMB, and that continuity issues may arise from the chair of the SMB rotating amongst the Chief Executives of the national housing federations every six months. The chair agreed to feed this back to Joseph, but felt that as the four Chief Executives would be at each meeting then there was not a continuity issue.
- It was suggested that continuity issues over membership may arise between SORPs as a result of SWP appointments being for a fixed term, with a risk that a significant number of members could leave at the same time in the middle of a SORP re-write. It was agreed that this should be kept under review, but is not an immediate risk.
- The chair reminded members that there may be occasions when the confidentiality of information will need to be respected or where commercial interests might be adversely affected by premature disclosure, and that press issues are best dealt with through the secretariat.

## **5. FRC SORP-making process**

- The SORP Policy and Code of Practice sets out a new requirement for both the SMB and SWP to provide the FRC with an annual report. This report should confirm that both membership and the SORP remains fit for purpose, as well as reaffirming the commitment of the SMB to comply with this SORP Policy and Code of

Practice.

- As part of the annual review, consideration would need to be given if there were any gaps in the SORP or areas which required further clarification.
- The chair asked members to provide feedback electronically on issues relevant to the annual report for discussion at the September meeting. It was noted that the 2016 report would be more important in terms of analysing the key issues following the first full year of reporting under the new SORP and FRS 102.
- Jenny Carter confirmed that she will attend SWP meetings in the short-term as observer for the FRC, but Mei Ashelford will resume the role once she is back from maternity leave.

All

#### **6. HCA Accounting Direction 2015**

- Phil Winter confirmed that the Social Housing Regulator has undertaken a consultation on the proposed Accounting Direction 2015, which will only apply to housing associations based in England.
- The reasons for needing to replace the 2012 Direction are to take into account the new Regulatory Framework, accounting changes introduced by FRS 102, and changes to the treatment of disposals. It has also been used as an opportunity to clarify and improve HCA disclosure requirements.
- The consultation process ended on 12 June 2015, but the HCA has agreed to consider the response of the SWP to be submitted after 16 June 2015.
- Phil Winter indicated that responses to the consultation expressed most concern about the Value for Money (VfM) Standard compliance statement – particularly that it leads to excessively long financial statements.
- Phil Winter confirmed that there are no plans in place to remove the requirement for a VfM statement from the financial statements, and that it is not necessary to publish everything within the narrative report as long as any other published self-assessment is clearly signposted to stakeholders.
- Numerous members raised concern about the lack of clarification from the HCA on what constitutes acceptable signposting of the VfM statement. It was put forward that including a brief note in the financial statements that signposts the VfM statement to the housing associations website is reasonable, and that the HCA should clarify whether this is sufficient as soon as possible.

PwC

- There was recognition of the importance of the VfM statement, but concern that it was being inappropriately shoehorned into the financial statements, and that the lack of clarification of what constitutes a summary has resulted in excessively long statements being produced which cover everything and lack transparency. It was also suggested that linking the VfM statement to the date of the financial statements is not the best approach as it uses out of date figures.
- Phil Winter will make clear that the VfM Standard compliance statement is the biggest issue to come out of the consultation. PwC will reflect the concerns of members in the SWP response to the consultation.
- It was proposed that additional direction and guidance from the HCA in relation to the VfM statement for this year would be beneficial to the sector, and that the NHF could assist delivery through a members update.
- The final point raised was in relation to early guidance on the final requirements of the new accounting direction and clarity in this document on how the requirements of the accounting direction are applied if a registered provider applies International Financial Reporting Standards or if a registered provider decides to early adopt FRS 102 and the Housing SORP 2014.

**Phil  
Winter,  
PwC**

**Phil  
Winter,  
NHF**

## **7. FRS 102 and loan covenant renegotiations**

- Sarah Smith explained the purpose of the discussion, which was to gain an understanding of where the sector is in respect of renegotiations and to establish whether there is a role for the SWP to play in supporting the sector on the matter.
- Sarah Smith raised a concern that lenders are delaying making decisions over renegotiation of loan covenants, regardless of how proactive housing associations are in forcing the issue.
- It was noted that lenders are potentially not dealing with the issue on a case by case basis and were looking to implement an independent assessment of new covenants which housing associations would need to pay for. Having old UKGAAP covenants after formal adoption of FRS 102 represents a significant risk to the sector – auditors not being able to confirm covenant compliance at the Balance Sheet date unless there was a waiver or the accounts were re-stated under old UK GAAP.
- Nigel Perryman confirmed that the issue was briefly discussed at the latest CML Social Housing Panel

meeting, but indicated that the process is ongoing and that no explanations were given for the delays to negotiations.

- Nigel Perryman confirmed that Lloyds Bank joining the Barclays/Smith & Williams initiative was not a resolution from the CML Social Housing Panel meeting, and that the current status of the project is unknown. The next CML Social Housing Panel meeting takes place on 8 September 2015.
- From an auditor's perspective, it was suggested that a lot of the sector may become noncompliant if formal adoption of FRS 102 occurs before loan covenants have been renegotiated. One solution would be for lenders to agree a waiver, but this would need to be agreed before the Balance Sheet date.
- The possibility of this being an issue for 2015 financial statements was brought up, given that we are now in June and the potential for covenant negotiations to drag on.
- It was agreed that the NHF should sensitively start raising the profile of the issue, and that the SWP will contact CML requesting a meeting with them on the matter. Phil Winter also confirmed that he will consult with colleagues at the HCA on what support they can provide.

**NHF,  
Phil  
Winter,  
PwC**

## **8. Upcoming technical issues**

- Following publication of the Housing SORP 2014, consideration is now being given to matters which may affect housing association accounting in the short to medium term. The following areas were identified as those which are likely to have a significant impact on the sector:
  - (i) **Lease accounting** – the International Accounting Standards Board (IASB) has been developing a new leasing standard for a number of years. The new international leasing standard is expected to bring almost all leases on to balance sheet. The FRC does not foresee the IASB finalising the leasing standard imminently, and it is unlikely to be a feature of the SWP's short term work plan.
  - (ii) **Accounting for government grant** – the FRC has indicated that accounting for government grant is an area they wished to revisit in the future with the suggestion that the choice of the accrual model or performance model of accounting would be removed and only the performance model



permitted. Any such changes would be subject to consultation with the sector, and it is unlikely the project will commence in the near future.

- (iii) **Impairment** – the FRC specifically requested that the SWP monitor and review the impact of the implementation of the revised guidance on impairment and, in particular, report back to the FRC on this area of the accounts. This will be done as part of the annual report for 2016.
- (iv) **Financial instruments** – there has been significant debate across the sector on accounting for financial instruments, focussing on the classification of financial instruments such as Lender Option Buyer Options (LOBOs) and embedded cancellables. The SWP will keep this area under review going forward to understand whether the SORP needs to be amended to include further guidance on financial instruments.

Jonathan Clarke reviewed the results of a survey sent to the Treasury Management Group (TMG) on accounting for embedded cancellable options. Roughly 50% of respondents confirmed they have embedded cancellable options, and of those 53% indicated they will account for them as basic, 26% as other and 21% were unsure of the accounting treatment to adopt. 79% of respondents with embedded cancellable options stated they will not be restructuring the financial instruments.

Only 22% of respondent confirmed they have LOBOs, and of those 75% indicated they will account for them as other and 25% as basic. The survey also showed that 78% of respondents have not had any detailed engagement with lenders over potential covenant changes, around FRS 102 more generally or specifically in relation to financial instruments.

- (v) **Valuation** – the basis of valuation of social housing properties is existing use valuation for social housing. The NHF has begun a project to look at valuation in more detail. This may have accounting implications which need to be considered as part of this project.

## 9. Any other business

- There was no other business.

**10. Subsequent meetings of the SORP Working Party meeting:**

- 11:00 am Thursday, 17 September 2015,  
PwC's Embankment Place Office, London
- 10:30 am Tuesday 1 December 2015  
Federation's Lion Court office, London