



THE SCOTTISH
HOUSING
REGULATOR

GUIDANCE NOTE

To: All Registered Social Landlords (RSLs)

Subject: Annual Accounts, Preparation of Financial Statements

Issued by: The Scottish Housing Regulator

Ref no: SHR 28

Date: April 2009

Summary

The purpose of this guidance note is to assist all Registered Social Landlords (RSLs) and their auditors in the preparation and audit of financial statements for years ending on or after 31 March 2009. It summarises and clarifies reporting requirements and the range of documents with which RSLs need to comply, and highlights issues that emerged from the preparation and submission of the 2007/08 statements. It comes into effect from the date of publication.

This guidance note supersedes the following guidance previously issued:

- The requirement to submit 'Appendix 2' – Analysis of Operating Costs' contained within SHR 13 – 'Assessing the Financial Viability of RSLs' is now superseded by the requirement to comply with The Registered Social Landlords Accounting Requirements (Scotland) Order 2007.
- SHR 06 – 'Annual Accounts, Preparation of Financial Statements'.

If you have any questions about this guidance, you should direct them to:

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1. INTRODUCTION

1.1 Registered Social Landlords (RSLs) have a range of statutory and regulatory reporting requirements, and these are set out in a number of documents. As regulator, SHR uses RSLs' financial statements to review and analyse performance, therefore consistent financial reporting within the social housing sector is essential. Our Chief Executive wrote to all RSLs on 21 November 2008 confirming that there was a less consistent approach from RSLs to the application of the 2007 Order than was anticipated in financial statements for 2007/08 and said that we would issue guidance covering this area before the preparation of the 2008/09 statements.

1.2 This guidance note should be read in conjunction with our guidance note SHR 25 – 'Notifiable Events'. In particular, section 3.3 of SHR 25 provides details of financial notifiable events. RSLs should take the preparation of the financial statements as an opportunity to consider whether there have been any notifiable events during the period under review and to report any matters to us that have not already been drawn to our attention.

2. ACCOUNTING ORDER 2007

2.1 The "Registered Social Landlords Accounting Requirements (Scotland) Order 2007 (SSI 2007/165)" came into force on 1 April 2007 and applies to all RSLs registered under statute with accounting periods starting on or after 1 April 2007.

2.2 The 2007 Order lays down accounting requirements for RSLs to ensure that their accounts give a true and fair view of the state of their affairs, comply with regulatory requirements, and are in line with generally accepted accounting practice (UK GAAP). The 2007 Order sets out how legislation applies to statutorily registered RSL financial statements.

2.3 Without exception, all organisations registered with the Scottish Housing Regulator should now be preparing financial statements in accordance with the 2007 Order. Compliance should be confirmed in the Notes to the Accounts.

2.4 We cover specific compliance issues in Annex A to this guidance. However, Annex A should not be viewed as a substitute to the 2007 Order and RSLs must be aware of the full content of the 2007 Order.

3. STATEMENT OF RECOMMENDED PRACTICE (SORP 2008)

3.1 A Statement of Recommended Practice for Registered Social Landlords (“SORP 2008”) sets out how RSLs should apply Financial Reporting Standards (FRSs) and generally accepted accounting practice (UK GAAP) in preparing their financial statements.

3.2 With the exception of co-ownership societies, all RSLs must now prepare financial statements in accordance with the 2008 SORP. There are no exemptions on the basis of size of organisation. For RSLs with charitable status the 2008 SORP takes precedence over the Charities SORP.

3.3 Compliance with SORP 2008 must be confirmed in Notes to the Accounts, and any material departures from applicable accounting standards should be disclosed, together with the reasons for any such departure.

3.4 It remains the responsibility of the governing body of an RSL to prepare financial statements. In preparing financial statements, RSLs must be aware of changes in applicable accounting standards issued by the Accounting Standards Board and also pronouncements issued by the Urgent Issues Task Force (part of the Accounting Standards Board) and any other developments since SORP 2008 was issued, and adjust their financial reporting accordingly.

3.5 If RSLs or their governing bodies are in any doubt about compliance with the SORP, financial reporting requirements or any subsequent developments, they must consult their auditor.

3.6 The main changes from SORP 2005 are noted within Annex B of this guidance. However, Annex B should not be viewed as a substitute to SORP 2008 and RSLs must be aware of the full content of SORP 2008.

4. GOING CONCERN

4.1 We would expect early notification in the event of serious issues relating to the going concern of an RSL and refer again to SHR 25 – ‘Notifiable Events’ as mentioned in paragraph 1.2 above.

4.2 We recognise that the auditors of an RSL will be performing tests during the course of their audit relating to the going concern of an RSL and that any issues will be reported in the RSL’s audited financial statements. However, it remains the responsibility of an RSL to notify us at an early stage if there are going concern issues within the organisation.

ANNEX A

Requirements of The Registered Social Landlords Accounting Requirements (Scotland) Order 2007 [SSI 2007 No.165] (“the 2007 Order”)

We provided a significant amount of feedback and information on the preparation of 2007/08 financial statements and the following information is intended to highlight key sections of the 2007 Order in response to this. It necessarily paraphrases parts of the 2007 Order.

It remains the responsibility of every RSL to be aware of the full contents of the 2007 Order.

Introduction

a) The 2007 Order came into force on 1 April 2007 and replaces the Registered Housing Associations (Accounting Requirements) (Scotland) Order 1999 [SI 1999 No. 1073 (S84)]. RSLs are required to prepare their accounts in the new format for accounting periods commencing on or after 1 April 2007.

b) The 2007 Order is in two parts:

- Arrangement of Regulations
- Schedule – Information to be included in the notes to the accounts

Schedule of Information to be Included in the Notes to the Accounts

The Schedule appears to be the main area where misunderstandings have occurred in the application of the 2007 Order.

The Schedule sets out three Notes:

- Note 1 – Analysis of turnover, operating costs and operating surplus or deficit for both social letting activities and other activities at summary level.
- Note 2 – Analysis of turnover, operating costs and operating surplus or deficit from social letting activities only.
- Note 3 – Analysis of turnover, operating costs and operating surplus or deficit from other activities only.

Note 1

- Layout must conform to the 2007 Order.
- The schedule should analyse Operating Income, Operating Expenditure and Operating Surpluses/Deficits for ‘Social Lettings’ and ‘Other Activities’.
- Total Turnover, Operating Costs, Operating Surplus or Deficit for the current year and comparative year figures should agree to the main body of the accounts.
- Figures entered for ‘Social Lettings’ and ‘Other Activities’ should agree to entries included in Notes 2 and 3, respectively.
- Sales of Fixed Assets, Interest, Other Financing Income/Costs and Tax should not be included within this note.

Note 2

- Layout must conform to the 2007 Order.
- Only Operating Income, Operating Costs and Operating Surplus/Deficit from Social Letting activities should be analysed within this note.
- Particulars of Turnover, Operating Costs and Operating Surplus/Deficit must be split over the following categories: General Needs Housing; Supported Accommodation; Shared Ownership Housing or Other (described).
- If all categories noted in the above point do not apply, the column should be included with nil entries. Alternatively, a statement such as 'There is no other accommodation except for General Needs' may be included at note 2.
- Commercial Properties should not be included within 'Social Lettings'.
- Management and Maintenance administration costs should be categorised together and clearly described as such.
- Total Turnover, Operating Costs and Operating Surplus/Deficit in Note 2 should agree to entries under 'Social Lettings' in Note 1.
- Maintenance Expenditure should be classified as either of two prescribed categories within the 2007 Order i.e. 'Planned and Cyclical (including Major Repairs)' or 'Reactive'.
- No 'Other Costs' should be entered within Note 2.

Note 3

- Layout should conform to the 2007 Order.
- Total Turnover, Operating Costs and Operating Surplus/Deficit within Note 3 should agree to entries under 'Other Activities' in Note 1.
- Under the category 'Other Activities' there must be a clear description of each activity which has at least one of :
 - a turnover amounting to 5% or more of total turnover.
 - costs amounting to 5% or more of total turnover.
 - turnover of £250k or more (even if less than 5% total turnover).
 - costs of £250k or more (even if less than 5% total turnover).
- For each activity all columns must be fully completed even if this includes nil entries.

Other Issues

- Notes 41 to 43 of the 2007 Order deal with the requirement to state the number of units managed by an RSL and also the number of units owned by the RSL but managed by other bodies.
- These should be categorised as either 'General Needs Housing', 'Supported Housing Accommodation' or 'Shared Ownership Accommodation'.
- In the case of hostels and shared accommodation with separate tenancy agreements for individual occupants, a unit of accommodation is taken as each single bedspace.

- Note 45 of the Order refers to 'Capital and other commitments'. Details of aggregated or estimated amounts of the contracts for capital expenditure should be provided. This should also include sufficient detail on the proposed financing of such expenditure. For example:
 - HAG funded
 - out of agreed overdraft funding
 - loan financed within agreed facility
 - from existing funds
 - other grant
 - hire purchase or finance lease

ANNEX B

Requirements of The Statement of Recommended Practice, Accounting by Registered Social Landlords 2008 (“SORP 2008”)

The following information is intended to highlight key sections of SORP 2008 and necessarily paraphrases parts of SORP 2008.

It remains the responsibility of every RSL to be aware of the full contents of SORP 2008.

Introduction

a) SORP 2008 came into force on 1 April 2008 and replaces SORP 2005. It incorporates changes to Financial Reporting Standards (FRS) and other accounting practices since the 2005 update. RSLs are required to prepare their accounts in the new format for accounting periods commencing on or after 1 April 2008.

The main areas of change throughout SORP 2008 relate to:

- Shared ownership properties
- Mixed tenure developments
- Negative land transfers
- Onerous contracts
- Land acquired below market price
- Related parties
- Stock transfers
- Valuations
- Designated reserves
- FRS 17: Retirement Benefits

The most significant of these changes relate to accounting for shared ownership and mixed tenure developments. These are both complicated areas and require careful planning, not least in considering the direct and indirect tax implication. However, in terms of accounting, the changes in the ways that shared ownership properties and mixed tenure developments are to be accounted for involve changes in accounting policy and therefore prior period adjustments will be required, unless of course the restatement would be immaterial. It would be helpful for an RSL to discuss levels of materiality with their auditors in advance.

Shared Ownership Properties

- Current/fixed asset split based on first tranche.
- First tranche sales recognised in turnover.
- Further tranches as part disposal of a fixed asset.
- Grant held against the fixed asset element.
- Prior period adjustment required.

SORP 2008 requires that proceeds from the first tranche of shared ownership sales should be accounted for in the income & expenditure account, proceeds will be recorded in turnover and costs in cost of sales with any surpluses or deficits clearly shown. Costs relating to second and subsequent tranches will continue to be recognised as fixed assets at the lower of cost and net realisable value based on Existing Use Value Social Housing (EUVS). Any profit or loss on disposal of second and subsequent tranches will also continue to be included after operating profit as fixed asset disposals.

Practical Issues:

- Split in 2 areas
 - Historic Shared Ownership Assets
 - New Shared Ownership Assets.

Historic shared ownership assets

- Detailed historic records of the costs and grant allocation for each asset.
- Detailed historic records of the first tranche proceeds and percentage for each asset.
- If required – generation of assumptions to arrive at these figures.
- Evidence for these assumptions
- The need for pragmatism in calculating a prior year adjustment.

New Shared Ownership Assets

- Detailed records of the scheme appraisal prior to approval.
- Assessment of likely first tranche sales percentage, cost and sales proceeds.
- Detailed records of costs incurred in developing the asset and split between current and fixed asset element.
- Evidence of any change in assumptions regarding the first tranche element throughout asset development and resultant impact on the accounts.
- Detailed records of any grant allocation and application to fixed asset element.
- If required – generation of assumptions to arrive at these figures.
- Evidence for each of these assumptions.
- Detailed records of each cost category that is to be/has been capitalised and justification for these in line with FRS 15.

Mixed Tenure Developments

Where a development has more than one element, i.e. houses built for sale to finance social housing in the same development, and one element is expected to generate a surplus and one element a shortfall, then it is not appropriate to recognise all of the profits on the development. The surplus on one element should be reduced by the shortfall of the other. This means that the overall surplus recognised on the houses built for sale cannot exceed the overall surplus on the overall development. This is a simplified explanation and the detail of SORP 2008 should be reviewed when appropriate.