



THE SCOTTISH  
HOUSING  
REGULATOR

## GUIDANCE NOTE

**To:** All Registered Social Landlords (RSLs)

**Subject:** Annual Accounts, preparation of Financial Statements and current issues

**Issued by:** The Scottish Housing Regulator

**Ref no:** SHR 06

**Date:** April 2008 (First issued May 2001)

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### Summary

The purpose of this guidance note is to advise all registered social landlords (RSLs) of current developments and issues in finance matters, and assist RSLs and their auditors in the preparation and audit of financial statements for years ending on or after 31 March 2001.

This guidance note draws together a range of financial issues, such as:

- proposed ending of the Rent Surplus Fund;
- the planned phasing out of relief from taxation currently available under S.54 of the Housing Act 1988; and
- withdrawal of Guidance Notes 97/02 “Internal Financial Control and Financial Reporting” and 97/06 “Code of Audit Practice”, the provisions of which are now included within “Raising Standards in Housing”.

This guidance note also clarifies the various documents with which RSLs have to comply when preparing financial statements and annual accounts.

**SHGN 2001/0?**

**02/0?**

**Month 2001**

For any references to Communities Scotland (or Scottish Homes) please read the Scottish Housing Regulator.

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, Scottish Homes uses RSLs' financial statements to review and analyse performance, therefore consistent financial reporting within the social housing sector is very important. This Guidance Note summarises and clarifies reporting requirements and the range of documents with which RSLs need to comply, and highlights emergent issues.
- 1.2 Two Guidance Notes are now withdrawn as their provisions have been covered by *Raising Standards in Housing* ("Raising Standards") which is issued by the Scottish Federation of Housing Associations:
  - **SHGN 97/02** "*Internal Financial Control and Financial Reporting*"; and
  - **SHGN 97/06** "*Code of Audit Practice*".
- 1.3 This Guidance Note now incorporates **SHGN 99/11** "*The Registered Housing Associations (Accounting Requirements) (Scotland) Order 1999 [SI 1999 No 1073(S84)]*" which explains key sections in the 1999 Accounting Order. **SHGN 99/11** is therefore withdrawn but the 1999 Order, a statutory instrument, remains in force. This Guidance Note supplements the 1999 Order - key sections are explained in **Annex A**.
- 1.4 Financial reporting requirements for RSLs are summarised in **Annex B**.

## 2 RENT SURPLUS FUND

- 2.1 The Rent Surplus Fund (RSF) is a notional calculation of the net rental surplus on properties built with HAG subsidy approved prior to 1 October 1989. Definitive guidance on the RSF is provided in **SHGN 96/14** which remains in force. Additional guidance is provided separately on the calculation of the RSF for each year's Return.
- 2.2 The RSF should be shown as a **restricted** reserve. Up to 80% of the net rental income calculated in the RSF Return may be transferred by RSLs to a specific **designated** reserve for major repairs. This designated reserve will have to be identified and only used for major repairs on such specified properties.
- 2.3 The draft Housing (Scotland) Bill, issued on 19 December 2000, provides for repeal of Section 55 of the Housing Act 1988 which deals with the RSF. It is the intention of Scottish Ministers, subject to Parliamentary approval, that S.55 be repealed with effect from 1 April 2001.

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- 2.4 **Until such time as Parliamentary approval is given, all RSLs are expected to complete RSF Returns in the usual way.** As the Bill progresses through the Scottish Parliament further guidance on how repeal of S.55 of the Housing Act 1988 will affect RSLs with financial years ending on or after 1 April 2001 will be provided by Scottish Homes.

### 3 SECTION 54 GRANT

- 3.1 Tax relief grant is a discretionary grant paid to non-charitable housing associations, under Section 54 of the Housing Act 1988, to assist them with corporation tax liabilities incurred on operating surpluses on eligible activities. It is claimed through Scottish Homes and SHGN **94/18** "*Pay and File – Section 54 Grant Claims*" remains the definitive guidance on claiming S.54 grant until further notice.
- 3.2 Scottish Ministers have decided to phase out payment of S.54 grant in respect of tax liabilities arising from 1 April 2002. Two options for phasing out the grant were proposed in a letter from the Scottish Executive of 19 December 2000, and have been widely consulted on. Once Scottish Ministers have decided on a method and timetable to phase out S.54 grant, further guidance will be provided by Scottish Homes. **Until such time as a firm decision has been taken by Scottish Ministers on the best method and timetable for withdrawal of S.54 grant, RSLs should continue to apply for S.54 grant to Scottish Homes in the usual way.**
- 3.3 Given the potential impact that withdrawal of S.54 grant might have on RSLs, it is the view of Scottish Homes that **RSLs should start to consider their potential liabilities and factor this into their financial planning.**

### 4 CODE OF AUDIT PRACTICE

- 4.1 In keeping with its role of promoting good practice, and complementing Scottish Homes' Performance Standards, the SFHA is responsible for producing "*Raising Standards in Housing*".
- 4.2 Two recent additions to "*Raising Standards*" are:
- (a) Appendix 6; "Code of Audit Practice" within Chapter 3 "*Internal Audit*"; and
  - (b) Appendix 9, "Code of External Audit Practice" within Chapter 10 "*Financial Management*".

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- 4.3 As a result of the SFHA publishing this guidance within “*Raising Standards*”, two Guidance Notes have been withdrawn: **SHGN 97/02** “*Internal Financial Control and Financial Reporting*” and **SHGN 97/06** “*Code of Audit Practice*”. RSLs and their auditors should now refer to the two appendices in “*Raising Standards*” for information on internal financial controls and the Code of Audit Practice.

## 5 1999 ACCOUNTING ORDER

- 5.1 The “**Registered Housing Associations (Accounting Requirements)(Scotland) Order 1999 [SI 1999 No 1073 (S84)]**” (the 1999 Order) came into force on 1 May 1999, and applies to all RSLs registered under statute with accounting periods starting on or after 1 April 1999.
- 5.2 The Order lays down accounting requirements for RSLs to ensure their accounts give a true and fair view of the state of their affairs, and comply with regulatory requirements. It is intended to bring reporting requirements for RSLs into line with generally accepted accounting practice and sets out how legislation applies to statutorily registered RSL financial statements.
- 5.3 **Without exception, all housing associations registered with Scottish Homes under statute should now be preparing financial statements in accordance with the 1999 Order. Compliance should be confirmed in Notes to the Accounts.**
- 5.4 Scottish Homes produced guidance in **SHGN 99/11** “*The Registered Housing Associations (Accounting Requirements)(Scotland) Order 1999 [SI 1999 No 1073 (S84)]*” which supplemented the 1999 Order. This guidance has now been incorporated into Annex A, therefore SHGN 99/11 is now withdrawn. Annex A should not be viewed as a substitute to the 1999 Order and RSLs must be aware of the full contents of the 1999 Order.
- 5.5 RSLs registered under contract are not subject to the 1999 Order. However, it is the view of Scottish Homes in its role as regulator that these RSLs should, in the interests of consistency and comparability within the social housing sector, consider the reporting requirements set out in the 1999 Order when preparing their financial statements, **in particular Notes 1 and 2 within Part 1** of the 1999 Order.

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## 6 STATEMENT OF RECOMMENDED PRACTICE

- 6.1 A Statement of Recommended Practice for Registered Social Landlords (the 1999 SORP) sets out how RSLs should apply Statements of Standard Accounting Practice (SSAPs), Financial Reporting Standards (FRSs) and generally accepted accounting practice in preparing their annual accounts and financial statements. It applies to RSLs registered under statute and under contract, and was effective for accounting periods ending on or after 23 March 2000.
- 6.2 **With the exception of co-ownership societies, all RSLs must now prepare financial statements in accordance with the 1999 SORP. For avoidance of doubt this includes Abbeyfields as well. There are no exemptions on the basis of size of organisation. For RSLs with charitable status the 1999 SORP takes precedence over the Charities SORP.**
- 6.3 Compliance with the 1999 SORP must be confirmed in notes to the Accounts, and any material departure from SSAPS and FRSs together with reasons for the departure must also be provided in notes to the Accounts.
- 6.4 It remains the responsibility of the governing body of an RSL to prepare accounts and financial statements. In preparing financial statements, RSLs must be aware of changes in FRSs issued by the Accounting Standards Board, applicable pronouncements by the Urgent Issues Task Force (part of the Accounting Standards Board) and other developments since the 1999 SORP was issued, and adjust their financial reporting accordingly.
- 6.5 If RSLs or their governing bodies are in any doubt about compliance with the SORP, financial reporting requirements, changes in Financial Reporting Standards or any subsequent developments, they must consult their auditors.

**Requirements of the Registered Housing Associations (Accounting Requirements)(Scotland) Order 1999 [SI 1999 No 1073(S84)] (the 1999 Order)**

**The following is a summary of the content of the 1999 Order, intended to highlight key sections of the 1999 Order and necessarily paraphrases parts of the 1999 Order. It remains the responsibility of every RSL to be aware of the full contents of the 1999 Order**

Introduction

- (a) The 1999 Order came into force on 1 May 1999 and replaces the Registered Housing Associations (Accounting Requirements) Order 1993 [SI 1993 No 487(S.52)]. RSLs are required to prepare their accounts in the new format for accounting periods commencing on or after 1 April 1999.
- (b) The Order is in three parts:
- Part 1 – details accounting issues and details note disclosures;
  - Part 2 – replicates Companies Act requirements for notes to the accounts; and
  - Part 3 – deals with subsidiaries.

Part 1

- (c) The Order sets out the general accounting requirements for RSLs:

Article 5: specifically refers to the generally accepted accounting concept of materiality. The Accounting Standards Board defines materiality within its “Statement of Principles”. There are two exceptions to this – the Rent Surplus Fund and the Disposal Proceeds Fund which must be disclosed in full, irrespective of materiality considerations.

Article 6: sets out the legal requirement to comply with the Order.

Articles 7-11: deal with fundamental accounting concepts of true and fair view; going concern; consistency; prudence; and accruals.

Article 12: sets out the standard requirement to show both assets and liabilities gross.

Article 13: sets out the overriding nature of the true and fair view requirement noting the need to disclose the full impact of using such an override.

Article 14: encourages RSLs to prepare accounts giving as much information as they believe is required or helpful to the user of accounts, rather than simply meeting minimum legal requirements.

Article 15: introduces a specific requirement to prepare segmental analysis of turnover and any surplus arising from different types of housing activity. This is linked to the requirement (paragraph 51 of Part 2) for details of the number of units in management. 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.

Article 17: requires the accounts to be signed by two members of the Governing Body and the Secretary. This satisfies requirements of a society registered under the Industrial and Provident Societies’ Acts, and automatically fulfils the requirement for registered Charitable societies.

Articles 18-24: follow the Companies Act requirements for the formats of the Balance Sheet and Income & Expenditure Account.

Articles 25-26: require information in the Notes to the Accounts to comply with the Schedules included within Part 1 to 3 of the Order.

Article 27: continues the requirement to properly separate out housing activities from other activities.

Articles 28-30: advises on treatment of the Rent Surplus Fund.

Articles 31-32: confirms that the Disposal Proceeds Fund only applies to RSLs in Scotland which participated in the Tenant Ownership Purchase Scheme (TOPS) established by Scottish Homes in 1996 under SHGN 96/15.

- (d) The Schedule within Part I sets out two Notes which analyse income and expenditure from operating and letting activities.

<p><b>Note 1</b></p> <ul style="list-style-type: none"><li>▪ The schedule analyses operating income, expenditure and surpluses (or deficits) for the full range of housing activities. Other agency services are included within “Other”.</li><li>▪ Development for sale includes improvement for sale for RSLs as well as any new build for sale by un-registered subsidiaries for group accounts purposes.</li></ul> <p>Share ownership staircasing transactions and Right to Buy sales are disposals of fixed assets. The gain or loss on disposal are <b>not</b> included within this Note.</p>
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<p><b>Note 2</b></p> <ul style="list-style-type: none"><li>▪ Bad debts are required to be treated as an expenditure item rather than as a deduction from rental turnover.</li></ul> <p>Expenditure on reactive and cyclical maintenance should be included under “Routine maintenance”, with other expenditure on planned maintenance and major repairs shown under “Major repairs expenditure”.</p>
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## Part 2

- (e) This part of the Order repeats the detailed note disclosure requirements contained in the Companies Act as a reference for RSLs.
- (f) Paragraph 3 asks for separate disclosure of the pension arrangements of the chief executive to eliminate inconsistent reporting of earnings including or excluding pension contributions.
- (g) Paragraph 4 extends the definition of “director” not only to the chief executive, but also to any other senior employee earning more than £40,000 per year.
- (h) Paragraph 7 restricts disclosure of the salary bands of directors to only those earning over £40,000 excluding pension contributions.
- (i) Paragraph 17 asks for the number of employees in terms of full time equivalents to reflect the growing incidence of part-time and flexible working arrangements, and enable more meaningful comparison between RSLs.
- (j) Paragraph 41 requires RSLs to provide information on the assured rent levels under their control, to facilitate monitoring of the impact of rent policies on housing benefit.

## Part 3

- (k) The Part sets out the requirements for disclosure of all members of a group to which an RSL may belong, and is consistent with the Companies Act disclosure requirements.

**FINANCIAL REPORTING REQUIREMENTS –  
CHECKLIST FOR REGISTERED SOCIAL LANDLORDS**

Financial Reporting Requirements	RSLs Registered under Statute			RSLs Registered under Contract (3)
	Abbeyfield Societies	Co-ownership Societies	Others	
Code of Audit Practice	No	Yes	Yes	Yes
1999 SORP (1)	Yes	No	Yes	Yes
Companies Act 1985	No	No	No	Yes
1999 Accounting Order (2)	Yes	Yes	Yes	No ( <i>BUT consider the Notes</i> )

- (1) The 1999 SORP sets out how generally accepted accounting practice, Statements of Standard Accounting Practice and Financial Reporting Standards apply to registered social landlords.
- (2) The 1999 Accounting Order sets out how legislation and accounting practice applies to registered social landlords, to bring financial statements in line with other entities. Its provisions are largely consistent with Companies Act requirements.
- (3) RSLs registered under contract, whether charitable or non-charitable, are required to comply with the 1999 SORP. As regulator, we would expect them to consider the requirements of the 1999 Accounting Order to enable consistent reporting across the social housing sector.