An introduction to the Housing Statement of Recommended Practice (FRS 102)
INTRODUCTION
This document sets out a summary of the changes that will arise from the implementation of the Housing SORP. The SORP is supplementary to FRS 102 and, therefore, a good working knowledge of this standard is important.

EFFECTIVE PERIOD
FRS 102 and the 2014 SORP are effective for periods commencing on or after 1 January 2015. Typically, therefore, for a housing provider with a March year end, the first set of financial statements under the new framework will be for its 31 March 2016 year end. Comparatives as at 31 March 2015 will need to be restated and an opening balance sheet, as at 1 April 2014, will need to be prepared. This is known as the transition date.

NARRATIVE REPORTING
Social landlords with more than 5,000 homes in management are required to publish a Strategic Report. Organisations with fewer than 5,000 homes are encouraged to disclose information on performance ‘commensurate with the size of the business’.

The Strategic Report should include your organisation’s objectives, its business model, development and performance during the year, future prospects, principal risks and uncertainties, financial and non-financial key performance indicators and governance.

PRIMARY STATEMENTS
Statement of Comprehensive Income (SCI)
- Movements in the fair value of unhedged financial instruments should be reflected above the ‘surplus for the year’ line in the SCI.
- Unrealised surpluses or deficits on the revaluation of housing properties, actuarial gains and losses in respect of pension schemes and changes in the fair value of hedged financial instruments are reflected below ‘surplus for the year’ but included within ‘total comprehensive income for the year’.

Balance sheet
- Social Housing Grant is disclosed within ‘accruals and deferred income’ within creditors rather than netted off against housing properties.
- Designated reserves are not permitted to be disclosed within the balance sheet.
- There are a range of disclosures that will affect the balance sheet in relation to financial instruments. These are discussed further overleaf.

PUBLIC BENEFIT ENTITY COMBINATIONS
A combination that is in substance a gift should be accounted for in accordance with FRS 102 which states that any excess of fair value of the assets received over the fair value of the liabilities assumed is recognised as income within the statement of comprehensive income.

HOUSING PROPERTIES
Properties held for social benefit should be disclosed as property, plant and equipment. Other housing properties should be disclosed as investment properties.

There is an option to hold property, plant and equipment at cost or valuation. Upon transition, social landlords can use a valuation as ‘deemed cost’.

Where assets are held as investment property, they are disclosed at fair value through income and expenditure.

At each year end, a housing provider must assess whether there is any indicator of impairment. The SORP then introduces a staged process in terms of calculating potential impairment. In summary, the ‘recoverable amount’ of an asset must be compared to its ‘carrying value’. If the ‘recoverable amount’ is lower than the ‘carrying value’, an impairment charge must be made. Detailed guidance for determining the ‘recoverable amount’ is included within the SORP.
SOCIAL HOUSING GRANT
Under the SORP, where properties are held at valuation, the ‘performance model’ must be used. Where properties are held at cost, the ‘accruals model’ must be used.
Under the performance model, social housing grants are, generally, reflected within the income statement once the construction of related housing is complete. Under the accruals model, the grant is amortised over the life of the structure and components of the property.

FINANCIAL INSTRUMENTS
Financial instruments will need to be categorised between ‘basic’ (such as cash, debtors, creditors and straightforward investments) and ‘non-basic’ (such as swaps, options and forward contracts). The accounting treatment for ‘basic’ financial instruments does not change significantly, however, ‘non-basic’ financial instruments will need to be measured at fair value at each balance sheet date.
This will affect the net assets of the housing provider and may make reported results more volatile.
Under FRS 102, housing providers that use financial instruments to hedge financial risks may be able to adopt ‘hedge accounting’. This would reduce the volatility of the results of the housing provider.

MULTI-EMPLOYER BENEFIT SCHEMES
Similar to the current accounting framework, employers which are part of such schemes, such as the Social Housing Pension Scheme, must account for their share of assets and liabilities of the scheme. If this information is not available, an employer must account for such schemes as a defined contribution scheme. However, under the new framework, if such an employer has agreed to fund a deficit relating to past service, it must also include the net present value of this liability in its balance sheet.

RELATED PARTIES AND REMUNERATION
The definition of related parties has been expanded to include key management personnel. As a result, the total remuneration and expense reimbursement for those staff managing a housing provider must be disclosed. The rent charged to, and balances outstanding for tenant board members must also be disclosed.

HOLIDAY PAY ACCRUAL
Under the new accounting framework, a holiday pay accrual must be included in the financial statements if it is material. This represents a change to current accounting standards in that such an accrual was previously optional. The accrual is accounted for by reference to the amount of untaken holiday at the year end, multiplied by the rate of pay for that individual.
ABOUT US

The UHY Hacker Young Group is an ambitious and growing Top 20* Group of UK chartered accountants. We have more than 100 partners who operate from 24 locations across the UK, with our main technical centres in London, Manchester and Glasgow - and we are growing.

The dynamic, competitive and highly regulated environment you operate in presents a number of unique challenges. Our national charity and not-for-profit team has a genuine understanding of the housing sector and the relevant expertise to help you overcome its challenges and exploit the opportunities available to you.

We have decades of experience supporting clients in the charity and not-for-profit sector, and helping them deal with the various financial aspects related to the sector. Our clients include a wide range of charity and not-for-profit organisations, from local charities of varying sizes to major national organisations.

THE NEXT STEP

If you would like to discuss in more detail how the above changes may affect you, please contact our housing specialist:

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