



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

30 August 2007

Our ref: ICAEW Rep 74/07

Your ref:

Nick Powell
Policy Leader
National Housing Federation
Lion Court
25 Procter Street
London WC1V 6NY

By email

NickP@housing.org.uk

Dear Mr Powell

STATEMENT OF RECOMMENDED PRACTICE – ACCOUNTING FOR REGISTERED SOCIAL LANDLORDS; INVITATION TO COMMENT AND EXPOSURE DRAFT OF THE 2007 SORP

The Institute of Chartered Accountants in England and Wales ('the Institute') is pleased to respond to your request for comments on 'Statement of Recommended practice - Accounting for Social Landlords; Invitation to comment and exposure draft of the 2007 SORP'.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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Secretary, ICAEW Social Housing Committee

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ICAEW Representation

ICAEW REP 74/07

STATEMENT OF RECOMMENDED PRACTICE – ACCOUNTING FOR REGISTERED SOCIAL LANDLORDS; INVITATION TO COMMENT AND EXPOSURE DRAFT OF THE 2007 SORP

Memorandum of comment submitted in August 2007 by The Institute of Chartered Accountants in England and Wales, in response to the National Housing Federation's 'Statement of Recommended Practice - Accounting for Registered Social Landlords; invitation to comment and exposure draft of the 2007 SORP' published in May 2007.

Contents	Paragraph
Introduction	1
Who we are	2 - 5
Responses to specific questions	6

INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the 'Institute') welcomes the opportunity to comment on the consultation paper '*Statement of Recommended Practice - Accounting for Registered Social Landlords; invitation to comment and exposure draft of the 2007 SORP*' published by the National Housing Federation.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 128,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.
4. The Institute's Social Housing Committee is responsible for co-ordinating the technical considerations of the social housing sector with respect to Chartered Accountants working within or for social housing organisations. Its membership represents practitioners, their clients and Chartered Accountants employed in financial roles within RSLs, HAs and related entities.
5. We welcome the RSL SORP working party's willingness to re-consult on this problematic area.

RESPONSES TO SPECIFIC QUESTIONS/POINTS

6. Shared Ownership Sales

Q1. Do consultees consider that shared ownership properties under development represent two assets?

Yes, if the intention is to dispose of a share from the outset and this is contained in the financial appraisal assumptions of the development, it would seem illogical to argue that the substance is not two assets.

Q2. If the response to question 1 is negative, consultees are requested to describe what they believe to be the economic substance of the transaction.

Not applicable

Q3. Do consultees consider that for the majority of the first tranche shared ownership sales, the transactions represent the disposal of a current asset?

Yes, it will normally be a required assumption to achieve financial viability on most shared ownership projects right from the outset that the necessary level of first tranche sales has to be achieved. This must mean that the intention and substance is building for “disposal”, thus marking this tranche out as a current asset.

Q4. If the response to question 3 is negative, consultees are requested to present the alternative proposals and why they regard the alternative(s) as preferable.

Not applicable

Q5. Do consultees agree with the proposed treatment of the sales proceeds on the first tranche sales?

Yes, see also response to question 3.

Q6. If the response to question 5 is negative, consultees are requested to present alternative proposals and why they regard the alternative(s) as preferable.

Not applicable

Q7. Do consultees agree that the treatment of non traditional shared ownership sales should follow the general approach to shared ownership sales provided for in paragraphs 80-87 (see Annex 1)?

Yes, in the specific example quoted of high first tranche proportions sold to the elderly, such schemes are evaluated specifically in terms of achieving “sales” and assume that there will not in fact be any rental stream. Such schemes are built with the objective of selling a high percentage of the ownership share in the first tranche.

For example, when such schemes are built an assumption is made that all units will be sold with a 75% share to the occupiers. At this level of shared ownership, the occupiers don't pay any rent. This means that essentially there isn't an asset that can be valued using the EUV-SH valuation model, as there isn't an underlying rental stream to value.

As the objective of the project would be to sell the 75% share, it logically makes the scheme a current asset (i.e. stock built for "sale") rather than the disposal of a fixed asset. The accounting could be argued to become less clear cut if a less than 75% share is sold. One option is for a 50% sale, in which case the occupier pays reduced (but not zero rent).

It is therefore hard to argue that this is a fixed asset disposal under the circumstances.

Q8. If consultees are aware of any non traditional shared ownership schemes which would not be able to be accounted for under the proposed provisions in the SORP, the SORP Working Party would welcome examples in order to consider the appropriate treatment for such schemes.

We are not aware of any.

Q9. Do consultees agree that the treatment of mixed tenure development is a linked transaction as it is conditional on the agreements with other public bodies e.g local authorities?

Yes, it would be the norm that the financial viability of the development would be taken as a whole based on a set of cross subsidy assumptions. Part of the negotiation process will tend to be finessing the division of subsidy between the various tenures. So it is difficult to argue that the transactions aren't linked. More guidance would be useful where transactions relate to a number of entities for example properties for sale recorded in a subsidiary or a joint venture and the social housing being accounted for in the RSL.

Q10. Do consultees agree with the proposed amendments in relation to mixed tenure development?

Yes, we agree that there will probably have to be scheme by scheme consideration, but the general principles seem clear.

As with the response to question 9 more guidance would be helpful.

Q11. Do consultees agree with the proposed amendments in relation to land acquired at sub market price and donated land?

No. We are content with the treatment of land not connected with development. However, for land connected with development the treatment is not consistent with the above. There is a concern that the fair value is not properly stated and as to how will this work through in future years if fixed assets are re-valued? More guidance is necessary to clarify this point.

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