

Buzzacott

Accounting and finance updates for housing associations

- Introduction and housekeeping – **Hugh Swainson** | Partner, Charity
- Audit and accounting update – Hugh Swainson | Partner, Charity
- Current developments and risk – Edward Finch | Partner, Charity
- Key audit considerations – Matthew Hrycaiczuk | Associate Director, Charity
- Q&A session

Audit and accounting update

Hugh Swainson

Reporting Framework for 2023/24

- Financial Reporting Standard (FRS 102).
 - Housing Statement of Recommended Practice (SORP) 2018.
 - Accounting Direction (2022).
 - Other financial reporting requirements (e.g. for subsidiaries).
 - Other resources: Model Accounts.
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FRED 82 and SORP consultation

- FRED 82:
 - Consultation (completed 30 April 2023).
 - Implementation – 1 January 2026.
- SORP consultation:
 - Working group.
 - Timeline.
 - Key changes:
 - Lease accounting.
 - Asset and liabilities definitions.
 - Revenue recognition.

What to do now?

Audit regulation update

- No significant new items for 2023/24
 - ISA315 and ISA240 still apply:
 - Focus on general IT controls.
 - Consideration of any systems carrying financial information.
 - Assessment of fraud risk, governance and emerging risks.
 - ISA600 – group audits (applies 2024/25).
 - Revised Ethical Standard 2024
 - ESG:
 - Decarbonisation, SECR and the Sustainability Reporting Standard (SRS) for Social Housing
 - IFRS S1 and S2 – Sustainability standards
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Current developments and risk

Eddie Finch

Sector risk profile (November 2023)

- Competing pressures and ongoing tensions
 - Compounding of 23-24 rent cap, rising costs and labour scarcity, demand for additional capacity, covenant pressure – especially interest cover, diversification and risks in commercial sectors.
 - Borrowing
 - Impact of regulatory grading, rates easing, but how quickly? Alternative sources of finance.
 - Counterparty risks
 - Construction and other commercial partners, local authorities – including supported housing, tenants collectively and cost of living.
 - Increasing operational expectations
 - Consumer standards – stock condition, Tenant Satisfaction Measures – and proactive regulation with C grades, stock quality and health and safety (RAAC, cladding).
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Consumer standards

- Move from a reactive approach to consumer regulation to a pro-active approach.
 - Ongoing and modified standards:
 - The Safety and Quality Standard – replacing the Home Standard.
 - The Tenancy Standard – replacing the old Tenancy Standard.
 - The Neighbourhood and Community Standard – replacing the old Neighbourhood and Community Standard.
 - The Transparency, Influence and Accountability Standard – replacing the Tenant Involvement and Empowerment Standard.
 - (From April 2023) The Tenant Satisfaction Measures Standard.
 - In consultation, expected to be effective April 2025, standard on competence and conduct.
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Implications of consumer standards and change in regulation

- Unlikely to be material change in liabilities arising from legal disrepair since:
 - Definitions within these standards broadly are similar to previous.
 - Legal underpinning of standards largely understood/ unchanged.
 - However public profile of the risk increased – Awaab’s law and Regulator responded with review.
 - Managing the cost and logistics of the multiple requirements around data, governance and transparency has been and will continue to compete with other priorities.
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Issues arising for regulatory judgement

Greater emphasis on evidence base:

- Risk management framework:
 - Adequate emphasis.
 - Prioritisation.
 - Board expertise/ advisory input.
 - Action taken to address gaps.
 - Data quality:
 - Capturing relevant data points .
 - Accuracy and completeness.
 - Governance and security.
 - Assurance – do current providers have expertise?
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Political risk

- All speculation...
 - Role of Associations and local authorities.
 - Increased co-ordination and new emphasis on targets.
 - Planning changes.
 - Emphasis on public/ private partnership.
 - All adds to forecasting uncertainty.
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Key audit considerations

Matthew Hrycaiczuk

Practical audit factors

- Pension scheme surpluses.
 - Impairment discount rates.
 - Legal disrepair and provisions.
 - Loan covenant monitoring.
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Pension scheme update – Asset capping

- When does this need to be considered?
 - What has led to this position?
 - What are the accounting requirements?
 - What are the key considerations in determining accounting treatment?
 - What is the accounting treatment?
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Asset capping – when to consider

- Based on annual actuarial valuation.
 - When scheme is in net surplus position.
 - Actuarial value of assets > actuarial value of liabilities.
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Asset capping – what has led to this situation

- For years, schemes in net deficit position.
- In 2022, saw large increase in discount rate, one of key actuarial estimates.

| | High | Mid | Low |
|----------------------|------|------|------|
| Y/e 31 December 2023 | 4.8% | 4.5% | 4.4% |
| Y/e 31 December 2022 | 5.1% | 4.8% | 4.6% |
| Y/e 31 December 2021 | 2.0% | 1.9% | 1.8% |

- Many schemes now showing actuarial surplus.
- Some associations successfully withdrawing and receiving refund.

Asset capping – FRS102 requirements

Defined benefit plan asset

28.22 If the present value of the defined benefit obligation at the reporting date is less than the fair value of plan assets at that date, the plan has a surplus. An entity shall **recognise a plan surplus** as a defined benefit plan **asset only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds** from the plan.

Key considerations – can we demonstrate recoverability?

- Unlikely if:
 - Contractual obliged to remain in scheme.
 - Significant adverse post year end movements.
 - Documented scheme rules do not clearly demonstrate amounts recoverable.
- More demonstrable if:
 - Evidence can leave scheme.
 - Communication available to show scheme considers refund payable.
 - Documented scheme rules clearly demonstrate amounts recoverable.
 - Important: If planning to recognise surplus, ensure asset ceiling calculated.

This requires judgement and recommend discussing planned approach with auditors in advance.

Accounting treatment

- If net asset in current year but not prior year and capping at £nil:
 - Balance sheet value £nil.
 - Service and interest cost as normal.
 - Actuarial movement capped and movement per accounts differs from actuary report.
- If net asset in current year and in prior year and capping at £nil:
 - Balance sheet value £nil.
 - Service and interest cost as normal, with equal and opposite movement shown as actuarial movement.
 - Actuarial movement capped and movement per accounts differs from actuary report.
- If net asset in current year and not capping (other than by asset ceiling):
 - Balance sheet value as per actuarial report (including asset ceiling).
 - Other movements calculated as normal.

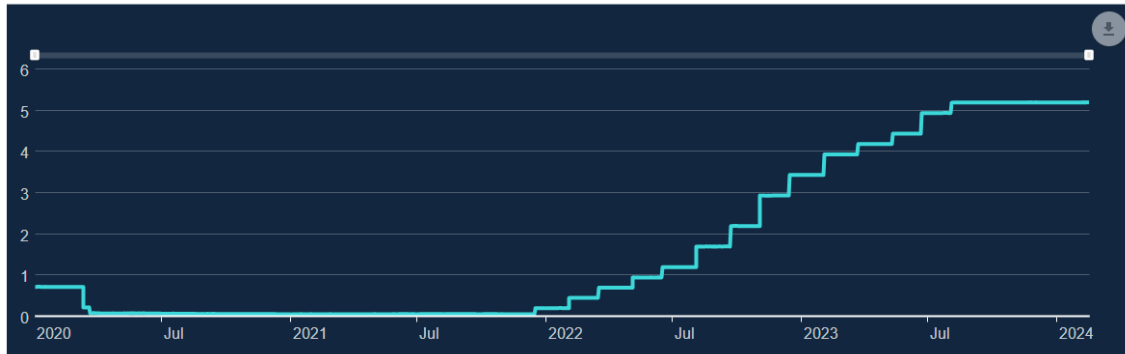
Key impairment judgement – discount rate

Why is this important?

- Key variable in impairment calculations.
 - Relevant when first stage assessment suggests possible impairment.
 - Will drive discounted value.
 - Auditors will consider judgements within your impairment assessment.
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Discount rate – key factor

- Rate used should represent assessment of long-term cost of capital.
- Impact of base rate increase.



Discount rate – considerations in determining appropriate rate

- Rate used should represent assessment of long-term cost of capital
- Impact of factors on capital cost assessment.

| Suggestions of lower capital cost | Suggestions of higher capital cost |
|--|--|
| Majority of borrowing fixed below current SONIA rate | Majority of borrowing variable, or at a fixed rate above SONIA |
| Loans not maturing in short to medium term | Loans due for refinancing in near future |
| Cash flows discounted over longer period | Cash flows discounted over shorter period |

- To prepare: Discuss your thinking with auditors in advance to agree approach and understand potential impact

Legal disrepair

- No significant changes for year ending 31 March 2024.
 - Be mindful of existing standards.
 - Current consultation: Awaab's Law: Consultation on timescales for repairs in the social rented sector - GOV.UK (www.gov.uk).
 - Potential minor impact once introduced, impacting time at which obligation crystallises.
 - Unless existing major issue, likely immaterial.
 - To prepare for 2024: Ensure mechanism for capturing liabilities at year end.
 - To prepare for 2025: Ensure future compliance requirements considered (along with broader compliance changes).
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Loan covenant monitoring

- Key audit consideration: Any forecast breaches within 24 months of year end.
 - Assessment proportional to risk within your association.
 - Higher risk requires more robust modelling.
 - Auditor will have similar concerns to regulator.
 - Sensitivities around interest rates, inflation and timing of expenditure.
 - To prepare: In advance of presenting paper to Board, discuss with auditor key sensitivities.
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Thank you for joining us

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E: enquiries@buzzacott.co.uk

T: +44 (0)20 7556 1200