



# RSL

## TECHNICAL UPDATE

SUMMER 2008

ALEXANDER SLOAN CHARTERED ACCOUNTANTS

### CHANGING TIMES

*Philip Morrice provides a review of the new Housing Association SORP and what it could mean to your Association.*

The delayed Statement of Recommended Practice (SORP) 2008 has finally been issued.

It applies to accounting periods on or after 1 April 2008, although earlier adoption is being recommended. It introduces changes in recommended practice for:

- Shared Ownership
- Mixed Tenure Development
- Related Party Transactions
- Donated Land
- Stock Transfers

#### Shared Ownership

The most controversial change has been in the accounting treatment of first tranche shared ownership sales. Previously, these were treated as reductions in the cost of the shared ownership property. The new SORP recommends that the proceeds be treated as turnover and the cost taken to cost of sales in the income and expenditure account.

On the face of it, this change has come in just as Shared Ownership has decreased in popularity and therefore for most RSLs

there will be little or no impact. However, the sting in the tail is that as the amendment represents a change in accounting policy a full prior year adjustment will be required. This may mean a trawl through old records of completed projects to ascertain what the position would have been had the new accounting treatment been used.



Assuming that for most RSLs their shared ownership properties were built a number of years ago the impact of this change will depend on the level of 'profit' made on the first tranche sales. Basically, the profit would have been shown in the income and expenditure account and increasing the reserves, rather than decreasing the cost of the shared ownership properties. The accounting treatment is further complicated by the provision that the surplus made on first tranche sales should be limited to the 'overall anticipated surplus'. This is defined in the SORP as being cost less the sum of the first tranche proceeds, net rental

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streams and expected staircasing receipts less HAG repayable.

This would appear to be a complex and subjective calculation and further guidance will be necessary in order for it to be completed. Bearing in mind that we are now into June, it is difficult to see how an RSL could realistically adopt this policy without guidance on, for example, how to calculate 'expected staircasing receipts'.

Furthermore, the calculation compares cost with the relevant cash flows including the repayment of HAG. This would mean that unless the gain in market value of the tranche sales is greater than HAG received there would be no overall surplus. If the value of all tranche disposals was less than the cost – no gain is made; if the value of tranche sales is above the cost – HAG would be repaid, reducing the net present value in most cases to below the cost. In effect the only situation where a surplus (in terms of the SORP) is made is where the value of the tranche sales (and net rental income) is greater than the cost plus any HAG received, or it is expected that the shared owner will never staircase up and the net rental income plus the first tranche sale exceed the cost figure.

## Other Changes

Less heralded changes in the SORP include a requirement for more detailed disclosures of related party transactions. If some members of the management committee or board are local councillors, employees of related local authorities, or other related public or commercial entities this fact should be disclosed together with a statement (if appropriate) that any transactions with the local authorities (or other entities) are made at arm's length and on normal commercial terms and that the

members cannot use their position to their advantage.

As local councillors and employees of local authorities are commonly members of the governing body of RSLs this is likely to lead to additional disclosure for a number of RSLs. It should be noted that the SORP does not require that the relevant members of the governing body be named, but only that the fact that they are on the committee or board be disclosed.

Although the SORP has been completely reviewed and rewritten, not much has changed.

## Future of the SORP

SORP 2008 will only have a short life span with a new SORP due in 2010. Originally it was planned that SORP 2010 would look at convergence with International Financial Reporting Standards however this plan has now been postponed and at this stage it is unlikely that there will be major changes in the next SORP.

***“difficult to see how an RSL could realistically adopt this policy without further guidance”***

For further information on the new SORP please contact Philip Morrice ([pm@alexandersloan.co.uk](mailto:pm@alexandersloan.co.uk))



## MODEL ACCOUNTS

Copies of our RSL model accounts incorporating the new SORP are available on our web-site



[www.alexandersloan.co.uk/housing.htm](http://www.alexandersloan.co.uk/housing.htm)

***News on the latest legislative changes  
effecting RSLs including the New  
Accounting Order***

# ***LEGISLATION UPDATE- April 08***

## **NEW ACCOUNTING ORDER**

The Accounting Order came into force on 1st April 2007 and applies to all sets of financial statements with a period of account starting on or after this date. The new accounting order seeks to bring the accounting requirements for RSLs up to date by reflecting changes in accounting practice, legislation and other developments.

Among the changes introduced by the order are the following:

- Introduction of 'Note 3' – which will require an analysis of non-letting activity
- 'Other activities' to be clearly described if over 5% of turnover or £250,000
- Increase in the threshold for disclosure of officer's emoluments from £40,000 to £60,000
- Removal of note on Average Secured Rents
- Changes in disclosure of capital commitments

The introduction of the additional note should not present significant problems for RSLs as the information disclosed in the note would have been required in order to produce their Analysis of Operating Costs.

The change in disclosure of officers' emoluments brings RSLs into line with charities

in disclosing emoluments over £60,000. Emoluments in this case exclude the amount of pension contributions paid by the employer. If none of the officers received emoluments in excess of £60,000 this should be stated in the accounts.

Disclosure of capital commitments that are 'not contracted for' is no longer required. However, there will now be a requirement to disclose how the RSL proposes to finance commitments that have been contracted for. The Order does not make it clear the level of disclosure required in this respect, but asks for 'an indication of the proposed financing' – whether the requirement is merely to disclose the proposed sources of finance, or the levels the financing is not defined.

## **THE SCOTTISH HOUSING REGULATOR**

From 1st April 2008, Communities Scotland's Inspection and Regulation division was replaced by The Scottish Housing Regulator.

At present there has been little change in the operations of the new Regulator from Communities Scotland. All guidance notes previously issued by Communities Scotland have now been rebranded by The Scottish Housing Regulator.

Further information on The Scottish Housing Regulator is available from their website at [www.scottishhousingregulator.gov.uk](http://www.scottishhousingregulator.gov.uk)



### Contact Details:

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## ABOUT ALEXANDER SLOAN

We are one of the largest auditors of Scottish Registered Social Landlords. Housing Associations are a key part of our business and we therefore devote significant resources to ensure we are kept up to date with the latest developments in RSL. As part of this strategy all our audit staff receive regular training on the latest developments in RSL.

From our offices in Glasgow and Edinburgh we provide a range of services for housing associations including:-

- External Audit
- Internal Audit
- Financial Services
- Training for Board and Committee Members and Staff
- Financial Projections
- Appraisal of lending packages



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