



CONSULTATION ON PROPOSED CHANGES TO THE 2022 ACCOUNTING DIRECTION

Issued 20 September 2021

ICAEW welcomes the opportunity to comment on the Consultation on changes to the accounting direction published by the Regulator of Social Housing on 14 July 2021, a copy of which is available from this [link](#).

This response of 20 September 2021 is made by ICAEW's **Business Law Department** and reflects consultation with the Business Law Committee. The Business Law Committee includes representatives from public practice and the business community.

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For more information, please contact: representations@icaew.com

ICAEW

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
T +44 (0)20 7920 8100 F +44 (0)20 7920 0547 icaew.com

The Institute of Chartered Accountants in England and Wales (ICAEW) incorporated by Royal Charter (RC000246)
Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

ANSWERS TO SPECIFIC QUESTIONS

1. Do reporting requirements covering the particulars of turnover, cost of sales, operating expenditure and operating surplus (Part 1 Note A) enable:

- ***the performance of the PRP to be explained to stakeholders in meaningful ways?***
 1. Whilst the definition of social housing lettings and social housing activities have been expanded, no further clarity or definition has been added as to how costs should be categorised. There is a diversity of practice across the sector in how costs are allocated and apportioned to the various activity categories, therefore impacting the consistency and comparability of accounts across the sector.
 2. The Direction currently states that “Additional lines should be included within Notes A and B to ensure consistency with the Statement of Comprehensive Income. This may include the disclosure of profits or losses on the sale of property, plant and equipment and decisions to include or exclude in operating activities”. This should be expanded to include gains or losses on revaluation of investment property and any other line items included in operating surplus to ensure that Note A clearly reconciles to the operating surplus figure on the face of the income statement.
 3. Further, there are a number of common items of income and expenditure that are not covered in the examples provided, such as gift aid received from subsidiaries and reimbursement of cost through insurance or grant funding for building safety costs.
 4. Additional definition and clarification on income and cost allocation would be beneficial but if this is not included then a requirement to disclose the judgments made in allocating income and expenditure should be added in its stead.
- ***are they consistent with reporting requirements where an operating segment report is produced to comply with IFRS8?***
 5. IFRS 8 Operating Segments requires entities with listed debts to disclose information about their operating segments, products and services, the geographical areas in which they operate, and their major customers. Information should be based on internal management reports, both in the identification of operating segments and measurement of disclosed segment information. In practice very few organisations prepare their internal management accounts and reports in the format of Part 1 Note A and therefore we do not consider that the requirements in the Accounting Direction are consistent with the IFRS8 requirements.

2. Does the proposed Accounting Direction adequately set out the reporting requirements in respect of the particulars of turnover and operating expenditure from social housing lettings (Part 1 Note B)?

6. There is currently a diversity of practice in the treatment of impairment charges relating to assets under construction. Whilst the definition of social housing has been expanded it does not stipulate whether such charges relating to properties intended to be kept for letting should be included in the operating expenditure from social housing lettings or in other social housing activities. We believe clarification on this matter would assist preparers of accounts and improve the consistency and comparability of accounts across the sector.
7. Additional definition and clarification on income and cost allocation would be beneficial but if this is not included then a requirement to disclose the judgments made in allocating income and expenditure should be added in its stead.

3. Does the proposed Accounting Direction adequately support the Value for Money reporting requirements that must be published annually within the statutory accounts?

8. The Accounting Direction is clear on the information to be included, however we consider that the comparison to peers is challenging due to:

- the availability of different accounting policy choices, the different judgments taken in applying those policies and for the reasons discussed in our response to question 1 around significant diversity in practice in how income and costs are allocated to the various activity categories.
- Providers only being able to compare current year data against their peers' prior year data. We have seen this year that those comparisons have become less meaningful as external factors have impacted year on year comparability.

4. Are there any areas of the proposed Accounting Direction that should be clarified, expanded on or removed?

9. See comments above.

5. Does the proposed implementation date provide an adequate timescale for PRPs to introduce the requirements of the Accounting Direction?

10. Yes.

6. Do you agree with these proposed changes?

11. There are no changes that we disagree with however we believe that further amendment is required to achieve the objectives.

7. Do you have any other comments regarding the proposed Direction?

12. Climate change and ESG reporting – There is currently a range of reporting in this area depending on the legal framework of the provider, such as those providers incorporated under the Companies Act 2006 required to provide SECR reporting, those who will be in scope of the TCFD reporting requirements and others who have voluntarily adopted the Sustainability Reporting Standards. The current draft AD 2022 is silent on this matter. Given the heightened focus on this area and the level of expenditure being forecast in the sector the Accounts Direction should consider whether a consistent approach across the sector would be beneficial to the users of accounts.