

Date: 31 July 2001
Consultation: *The Future of Financial Reporting in the UK and Republic of Ireland - Financial Reporting Standard for Public Benefit Entities (FRSPBE).*

Introduction

The Northern Ireland Federation of Housing Associations (NIFHA) represents registered and non-registered housing associations in Northern Ireland. Collectively, our members provide around 36,000 good quality, affordable homes for renting or equity sharing. Further information is available at www.nifha.org

Background

We firmly believe the role of housing associations extends far beyond the buildings they build, own and manage. Their work contributes directly to the creation and maintenance of successful, sustainable neighbourhoods and communities which in turn leads to further social, economic and environmental benefits. It enables improvements in many aspects of people's lives including health, education, improved quality of life and increased opportunities. Our housing associations are delivering real and valued outcomes to the most vulnerable in our society.

In preparing this response we have consulted with our members and in particular with those who participate in our Finance Forum.

General Comments

NIFHA welcomes the opportunity to respond to ASB exposure draft "*The Future of Financial Reporting in the UK and Republic of Ireland - Financial Reporting Standard for Public Benefit Entities*" (FRSPBE).

Like our colleague federations in Great Britain we are generally supportive of the ASB's work to harmonise the UK's financial reporting through convergence to IFRS. We are pleased to respond to this exposure draft.

Government recognises both the scale of the shortage of affordable housing and the role that investment in the housing sector can make in helping to establish economic recovery. We share the Department for Social Development's commitment to creating sustainable communities and delivering improved prosperity, opportunity and quality of life for the people of Northern Ireland.

NIFHA's members are experienced at stretching public funding by leveraging in substantial private sector resources. Since the late 1990s housing associations have been the main provider of social homes in Northern Ireland. They have negotiated £526.2 million of private finance to fund the development of new homes and communities since 1991. Housing associations play a vital role in helping the government achieve its targets on the delivery of new homes.

We know there are challenges ahead. Reductions in Housing Association grant allied with proposed housing benefit cutbacks will create huge hurdles for the sector.

Housing associations will become far more heavily geared as they rely to a greater extent on private finance to fund capital developments.

Definition of public benefit and its application to the housing sector

The definition of public benefit as written in the FRSPBE means that all of our members will be defined as public benefit entities and therefore will apply the principles in the exposure draft. In general we are supportive of these principles and have set out our response to your detailed questions below. We do have two overall comments that we would like to bring to your attention.

1. Firstly, we understand that the FRSPBE will be mandatory for entities that apply the Financial Reporting Standard for Medium Sized Entities (FRSME) but not for those entities that fall into either Tiers 1 or 2 under the Board's proposals on the future of UK GAAP. Given that the definition as written would capture all housing associations we would support, if possible, that the FRSPBE be applicable across all the tiers. This would mean that should any housing associations adopt Tiers 1 or 3 the consistency of financial reporting would be maintained.
2. Secondly, the UK Federations response to the Board on its proposals on the future of UK GAAP our representatives have engaged in subsequent discussions on the most appropriate accounting for government grant, and specifically social housing grant which is highly material in the housing sector. There are a number of terms and conditions applicable to these grants which we believe need interpretation to bring clarity to how the sector accounts for grant. The FRSPBE may be an appropriate mechanism to provide this clarity and we would welcome further dialogue on this issue.

Specific Comments

Definition of a public benefit entity

Q1 Is the definition of a public benefit entity and the accompanying application guidance sufficiently clear to enable an entity to determine if it is a public benefit entity? If not, why not?

Yes. We believe that the definition is both sufficiently clear and appropriate with the following exception. We believe it would be helpful to define a 'de minimis' level when considering the level of equity that would define an entity as a PBE. The term 'any equity' is in our view too wide a definition and may define some organisations as PBEs when this was not the intention.

Effective date

Q2 The ASB is proposing an effective date of 1 July 2013 which is consistent with the effective date of the FRSME. Early adoption will be permitted except for entities subject to a SORP, whereby they will be required to follow the SORP until the effective date of the [draft] FRSPBE.

Do you agree with:

- (a) the proposed effective date; and*
- (b) the restriction on early adoption?*

If not, what would be your preferred date, and why?

We are pleased that the proposed date for adoption of the PBE standard is consistent with the planned timetable. However the timetable may need to take into account the time required to develop a new Housing SORP. We reiterate our commitment to working with the ASB to develop a timetable that allows the timely adoption of a Housing SORP. We also concur with the restriction on early adoption as we believe this will ensure that consistency of financial reporting is maintained in the housing sector.

Concessionary loans

Q3 Do you agree with the proposals for concessionary loans in public benefit entities? If not, what alternative accounting treatment and/or disclosures do you consider appropriate?

We agree with the proposals.

Property held for the provision of social benefits

Q4 Do you agree with the proposals for property held for the provision of social benefits? If not, why not?

We agree with the proposals but note there will be work for the Housing SORP to do to provide interpretation to users on whether the increasing variety of 'housing tenure types' fall into the definition of a property held for the provision of social benefits or alternatively an investment property.

Entity combinations

Q5 Do you agree with the proposals for combinations that are in substance a gift and combinations which are in substance a merger?

We agree. The proposals for combinations that are in substance a gift have already been applied by housing in the 2010 SORP update therefore we are supportive of these proposals.

Q6 Do you agree with the criteria set out for merger accounting? If not, what criteria in addition to or instead of those suggested should be included in the draft Standard?

Yes. We are pleased that merger accounting continues as a concept and agree the criteria for merger accounting are appropriate and are consistent with current requirements of the SORP. We do however also believe that as two entities combine there is scope for benefits to change, and for the class of beneficiaries to be extended, so merger accounting may still be applicable in these circumstances.

Impairment of assets: public benefit considerations

Q7 Do you agree with the proposed alternative method of determining value in use for assets held for their service potential? If not, what alternative method would you suggest and why? Do you agree with these guidelines? If not, please explain why.

We agree. The proposals for an alternative method of determining the value in use for assets held for service potential have already been adopted by housing in the 2010 SORP update which is supported by a detailed technical note on the

specific area. We do however believe that it would be useful to provide more guidance to make the definition of fair value more explicit. For example, if an entity derives benefit both from the cashflows and 'charitable' benefits from an asset it is unclear how an organisation should value these assets. This may be an area for SORPs to provide this guidance.

Funding commitments

Q8 Do you agree with the recognition criteria and measurement and disclosure requirements set out in the proposals? If not, what further criteria and/or disclosure requirements should be included and why?

We agree. A liability should only be recognised for a specific commitment which gives the recipient, or group of recipients, a valid expectation that payment will be made and therefore from which the grantor cannot realistically withdraw. We also agree that because many commitments are not recognised, as in effect an entity may amend or withdraw its policy, it is important that full and informative disclosure is also made of the existence and sources of funding for unrecognised commitments.

Incoming resources from non-exchange transactions

Q9 Do you agree with the proposals for recognition of incoming resources from non-exchange transactions?

The proposals focus on accounting for donations in the form of legacies and donated services which are rare in the housing sector. There are however many instances where land or property is donated either for free or at below market value. We agree in these cases an asset should be recognised at fair value but subject to the restrictions imposed upon the use of the asset.

Q10 Is the guidance sufficiently clear to enable an entity to understand and interpret the proposed requirements? If not, what further guidance is required?

Yes. The guidance is sufficiently clear to enable an entity to understand and interpret the proposed requirements. We do however believe there is a role for the Housing SORP here to provide further guidance on housing specific areas.

Heritage assets

Q11 Do you agree with the proposals for heritage assets and in particular the proposals for recognising subsequent movements in valuation of heritage assets in other comprehensive income?

We have no specific comments to make.

Development of the draft standard

Q12 Do you believe the future issues that may be considered following finalisation of this draft Standard as set out in paragraph 4 of Section IV are appropriate? Are there any additional matters which you believe should be included on the agenda for future updates to this draft Standard?

We agree that the future issues identified are appropriate and particularly welcome the inclusion of narrative reporting.

Q13 Do you believe that further guidance is required to interpret the indicators of control included in Section 9 Consolidated and Separate Financial Statements of the draft Financial Reporting Standard for Medium-sized Entities (FRSME)?

We agree that the FRSME provides adequate guidance on indicators of control to enable PBEs to interpret and apply them appropriately.

Q14 Do you believe that the requirements of this draft Standard should be extended to entities that apply the FRSSE?

In the sector's earlier response to the FRSME we indicated that we would not recommend adoption of the FRSSE for the housing sector as:

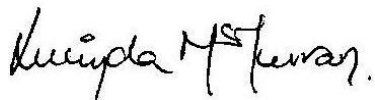
- there will be reduced consistency across the housing sector, as some housing associations will be categorised into Tier 3;
- the stewardship of different sized housing associations is similar, therefore classifying housing associations into different Tiers reduces comparability; and
- it is expected that the FRSSE will be withdrawn in the future. Those housing associations which fall into FRSSE would therefore have to change their basis of accounting twice in a short period of time. This would have a detrimental impact on these small organisations.

However, as a point of principle we believe that the requirements of this draft standard should be extended to all entities that fit the definition of a 'public benefit entity' including entities in both Tiers 1 and 3.

Conclusion

I am pleased to submit this response on behalf of NIFHA and trust you will find our comments helpful.

Submitted on behalf of NIFHA by:



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