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By email to: [joseph.carr@housing.org.uk](mailto:joseph.carr@housing.org.uk)

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Dear Mr Carr

## **Housing SORP consultation – revised guidance on impairment**

Deloitte LLP is pleased to respond to Housing SORP consultation – revised guidance on impairment. We have set out our detailed responses to the consultation questions in the Appendix to this letter.

We would be happy to discuss our letter and the draft proposals with you. If you have any questions, please contact Ken Rigelsford on 020 7007 0752 or [krigelsford@deloitte.co.uk](mailto:krigelsford@deloitte.co.uk).

Yours sincerely



Veronica Poole  
National Head of Accounting and Corporate Reporting  
Deloitte LLP

## Appendix

### Responses to detailed questions

#### Question 1      About you

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#### Question 2      Type of organisation

Accounting firms and bodies.

The SORP Working Party notes that social landlords hold a range of different types of housing properties and that the intended use of these properties will vary. However, many of these housing properties are applied for a social benefit purpose when an alternative purpose might generate additional funds. The decision to apply these properties for a social benefit purpose arises at least in part because of the underlying objectives of the social landlord to reduce housing deprivation and therefore the assets are applied for that purpose as well as to obtain financial returns. The SORP Working Party therefore considers it is appropriate to conclude that properties intended to be used for social benefit are also held for their service potential. The SORP Working Party considers that the assessment as to whether properties are held for their service potential should be consistent with the judgements applied when categorising housing properties between property, plant and equipment and investment properties, and therefore should be based on the intended use of the property. The draft SORP provides the following guidance in paragraph 8.1 to 8.3 of the SORP to determine whether a property is held for its social benefit:

**8.1 A social landlord must determine the intended use for each property (or class of properties). In determining the intended use for the property, social landlords should consider the following questions:**

- (a) Is the asset held for social benefit?**
- (b) What is the reason for/purpose of holding the asset?**

**The following list sets out some possible responses to this question:**

- (i) to earn rentals;**
- (ii) for capital appreciation;**
- (iii) for both rental and capital appreciation;**
- (iv) for use in the production or supply of goods or services;**
- (v) for administrative purposes; or**
- (vi) for sale in the ordinary course of business.**

**8.2 The following factors are not relevant in determining the intended use of each property:**

- (a) The general and overarching purpose of an organisation, for example to provide social housing to the local community; and**

**(b) The purpose for which any profits from the activity of a housing property is applied, for example reinvesting profits from market rent housing properties into the provision of social housing would not mean that those market rented properties are held for social benefit.**

**Question 3 Do you agree with the SORP Working Party's conclusion that the assessment of whether a property is held for its service potential should be consistent with the principles set out in the earlier section of the SORP for classifying a housing property as property, plant and equipment or investment property based on its intended use?**

Yes.

**Do you have any comments?**

We agree that the assessment of whether a property is held for its service potential should be consistent with the principles set out for classifying a housing property as property, plant and equipment of investment property based on its intended use.

**Paragraph 27.20A of FRS 102 permits the recoverable amount to be determined taking into account the value in use (in respect of assets held for their service potential) ('VIU-SP') for assets held for their service potential, where measurement of value in use based on cash flows is not appropriate. VIU-SP is a judgemental estimation technique which requires an entity to estimate the value of the service potential being derived from an asset or cash generating unit. It is necessary to consider the information that users of the financial statements of a social landlord will find relevant and reliable in assessing the social landlord's financial performance and financial position, to determine whether or not the SORP should permit social landlords to use VIU-SP when considering impairment of housing properties. Although it is acknowledged that social housing is primarily held for its service potential, there are many factors that indicate that the social housing sector is largely cashflow driven. For example business decisions are based on whether lossmaking schemes can be funded from profitmaking schemes and with less funding being provided by government grants there is an increase in funding provided by commercial lenders including, increasingly, bond holders. The key concern of these lenders will be the ability of a social landlord to meet their loan or bond commitments as they fall due, although it is noted that lenders to the sector can request tailored financial information for loan security purposes to supplement information in the financial statements.**

**The SORP Working Party recognises that a social landlord's property assets do generate cash flows which can be used as the basis for calculating the value in use of a cash generating unit. However the SORP Working Party considers that social housing properties, whilst generating a cash flow, are held primarily for their service potential and therefore a social landlord should be able to apply the guidance available for VIU-SP as a more relevant alternative to value in use.**

**Please note that this exposure draft has been drafted on the basis that it is accepted that the use of VIU-SP is appropriate and does provide the most relevant and reliable information when supported by the disclosure requirements set out in the exposure draft.**

**Question 4 If the SORP permits social landlords to use VIU-SP as an alternative estimation technique in determining value in use when performing an impairment assessment, do you consider that the resulting financial statements would provide sufficient, relevant and reliable information to the users of those financial statements, provided appropriate additional disclosures were made setting out the extent to which it has been applied?**

Yes.

**Do you have any comments?**

We agree the financial statements would provide sufficient, relevant and reliable information to the users if the use of VIU-SP was permitted as an alternative estimation technique, provided appropriate additional disclosures were made.

**Question 5      Would the use of a purely cash flow based estimate (ie value in use) in determining the recoverable amount of social housing properties provide more relevant and reliable information for users?**

No.

**Do you have comments?**

We believe the use of a purely cash flow based estimate, in determining the recoverable amount of social housing properties, may lead to unnecessary impairments as it may not reflect that these are held for their service potential.

**Paragraph 27.20A of FRS 102 states that:**

**For assets held for their service potential, a cash flow driven valuation (such as value in use) may not be appropriate. In these circumstances value in use (in respect of assets held for their service potential) is determined by the present value of the asset's remaining service potential plus the net amount the entity will receive from its disposal. In some cases this may be taken to be costs avoided by possession of the asset. Therefore, depreciated replacement cost, may be a suitable measurement model but other approaches may be used where more appropriate.**

**The key challenge faced by the SORP Working Party was how to measure the service potential of an asset and a number of different options have been debated and explored with valuers and the Financial Reporting Council. The SORP Working Party concluded that a balance needed to be struck between providing sufficient guidance to the sector to assist in assessing impairment and ensuring that the interpretation of FRS 102 was not too restrictive and does not limit the options available in FRS 102.**

**The conclusion of the SORP Working Party is that depreciated replacement cost is the measurement method most likely to give an appropriate estimate of the VIU-SP for a social housing property, however the updated SORP allows social landlords the flexibility to use alternative methods if they are relevant and reliable.**

**Question 6      Do you agree that depreciated replacement cost provides an appropriate measurement basis for assets held for their service potential?**

Yes.

**Do you have comments?**

We agree that depreciated replacement cost, as defined in FRS 102, is an appropriate measure of assets held for their service potential. However, we would welcome more guidance in the SORP as to how this should be calculated in respect of social housing properties, perhaps by way of example.

**Question 7      If not, what alternative measures would be more appropriate?**

We believe that other methods, such as fair value less costs to sell, might also be appropriate methods of determining the value of the assets held for service potential, but we agree with the SORP recommending only one method to encourage consistent treatment within the industry.

**Question 8      Is there sufficient guidance in paragraphs 14.25 and 14.26 to explain the calculation of depreciated replacement cost?**

No

**Do you have comments?**

See answer to question 6 above and question 9 below. It would also be useful to determine what depreciated replacement cost is in the context of registered providers of social housing and what needs to be taken into account.

**Question 9      If not, would the inclusion of worked examples be of assistance in applying this guidance?**

Although we agree the guidance is sufficient, we believe a worked example would be helpful in applying the guidance.

**Question 10    Are the disclosure requirements of paragraph 14.42 sufficient? If not, what further disclosures are required?**

Yes.

**Do you have comments?**

We have considered the disclosure requirements of paragraph 14.42 and have not identified any further disclosures that would be required in the financial statements.

**Question 11    Should a social landlord be required to disclose the value in use of a cash generating unit if it chooses to use the VIU-SP estimation technique in performing an impairment assessment?**

No.

**Do you have comments?**

We believe social landlords should not be required to disclose the value in use of a cash-generating unit if it chooses to use the VIU-SP estimation technique in performing an impairment assessment. In providing this disclosure, entities would have to perform additional calculations and the cost of this process would not outweigh the benefits achieved.

**The revised impairment section clearly sets out that there is no requirement to carry out an impairment assessment unless there is an indicator of impairment. This means that no impairment loss will arise on schemes that are expected to be or have been completed in line with approved plans unless one or more indicators of impairment arise (and the subsequent assessment of recoverable amount identifies a shortfall when compared to the schemes carrying amount).**

**Question 12 Is the redrafted impairment section sufficiently clear that an impairment assessment is only required where there is an indicator of impairment?**

Yes.

**Do you have comments?**

We believe the redrafted impairment section is sufficiently clear but we request the SORP working party clarify whether the “approved plans”, as disclosed in the question, includes internal subsidies or not. If internal subsidies are included within “approved plans”, which may often be the case for social housing, then we would expect impairments only to arise upon events that are either not expected by the social landlord or events that are outside the control of the social landlord.

**Question 13 If not, what further information is required?**

No comments.

**The section on indicators of impairment has been rewritten in the revised impairment section. The SORP Working Party felt it was more helpful to highlight the most common indicators that were likely to be relevant to the sector rather than repeating the text from Section 27 of FRS 102.**

**Question 14 Does the section setting out the indicators of impairments provide sufficient guidance to social landlords to understand when there may be an indicator necessitating an impairment assessment?**

Yes.

**Do you have comments?**

It may be helpful to highlight in the SORP that the list setting out the indicators of impairment is not an exhaustive list and there may be other conditions that could also be indicators necessitating an impairment assessment.

**Question 15 If not, what further guidance is considered necessary / useful?**

Not applicable.

A cash-generating unit is defined in FRS 102 as:

**“The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets of groups of assets.”**

In the original Exposure Draft of the SORP this was determined to be likely to occur at a scheme level, however responses to the consultation highlighted that this may not be appropriate. Therefore the SORP Working Party has discussed at length what the definition set out in FRS 102 actually means in practical terms for the sector and in particular what would be assessed as ‘largely independent’. As part of these discussions, the SORP Working Party looked to other accounting practices and literature including IAS 36 ‘Impairment of Assets’ which includes the following paragraph:

Cash inflows are inflows of cash and cash equivalents received from parties external to the entity. In identifying whether cash inflows from an asset (or group of assets) are largely independent of the cash inflows from other assets (or groups of assets), an entity considers various factors including how management monitors the entity's operations (such as by product lines, businesses, individual locations, districts or regional areas) or how management makes decisions about continuing or disposing of the entity's assets and operations. Illustrative Example 1 gives examples of identification of a cash-generating unit.

#### **Illustrative Example 1**

A bus company provides services under contract with a municipality that requires minimum service on each of five separate routes. Assets devoted to each route and the cash flows from each route can be identified separately. One of the routes operates at a significant loss.

Because the entity does not have the option to curtail any one bus route, the lowest level of identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets is the cash inflows generated by the five routes together. The cash-generating unit for each route is the bus company as a whole. The revised impairment section for the SORP has drawn on the requirements of IAS 36 in determining what a cash-generating unit would be, but has stopped short of explicitly setting out at what level a cash-generating unit would ordinarily be determined. The SORP Working Party felt it was more appropriate to set the principles as guidance and to allow individual social landlords to use their judgement based on their individual circumstances to determine the level at which they set a cash-generating unit. The SORP Working Party felt it was important to highlight that it is possible for a cash-generating unit to change as a development programme moves from construction into management.

**Question 16** Do you agree with the guidance set out in this draft section of the SORP for determining cash-generating units?

No.

**Do you have comments?**

See answer to question 17 below.

**Question 17 If not, why?**

We have considered the guidance set out in this draft section of the SORP for determining cash-generating units and agree that it, in certain limited circumstance, it may be possible for the identification of cash-generating units to change as a development programme moves from construction into management. However, we believe that there would also be similar scenarios where a change in the identification of cash-generating units would not be appropriate and therefore, this example could be misleading to users of the SORP.

**Question 18 Is there sufficient guidance included within the SORP to enable social landlords to determine cash-generating units within their individual business?**

No.

**Do you have comments?**

See answer to question 17 above.

**Question 19 If not, what additional guidance is required?**

Not applicable.

**The SORP Working Party believes that the value in use calculation should be available in measuring the recoverable amount as a practical expedient, even though this technique does not incorporate an assessment of the service potential of social housing properties. This is because it is a practical and easy calculation and the information required to perform such a calculation will be readily available to social landlords. The revised impairment section suggests that value in use would often be the first calculation performed in measuring the recoverable amount and will determine in those circumstances whether the social landlord needs to do further work in measuring either the fair value less costs to sell or the VIU-SP of the assets, which could be more complex.**

**Question 20 Do you agree that value in use should be available to a social landlord as a method of measuring recoverable amount for the purposes of impairment?**

Yes

**Do you have comments?**

See answer to question 21 below.

**Question 21 If not, why?**

We agree that value in use may be appropriate in assessing the recoverable amount of the assets. However, the SORP should make clear that if this value does not support the book value of the assets, VIU-SP should then be calculated to assess if impairment is required,

We noted here that service potential is defined in FRS 102. We would recommend the SORP working party include the definition in the SORP to aid social landlords.



**The SORP Working Party felt it was appropriate to include worked examples to illustrate the application of the core principles and guidance set out in this section of the SORP.**

**Question 22 Do the worked examples included in the impairment section provide sufficient guidance for social landlords to apply the principles set out in the SORP?**

Yes. However, please refer to comments in question 16 regarding example 1

**Do you have comments?**

No Comments.

**Question 23 If not, what further examples would be of value in applying FRS 102 and the SORP when assessing impairment of social housing properties? Please provide brief details as to what examples would be of value.**

No comments.

**Question 24 Is it sufficiently clear how accounting for government grant interacts with impairment?**

Yes.

**Do you have comments?**

Consistent with our response to the previous draft, whilst we agree with the approach taken by the SORP we believe it needs to clarify that the approach only applies to general needs property grants. The SORP should also address other forms of grants such as 'Homebuy' which have not historically been amortised because they are not grants related to assets and this should be made clear. A worked example to illustrate the interaction of government grants and impairment would be helpful..

**Question 25 If not, why?**

No comments.