



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

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Our ref: ICAEW Rep 120/09

Your ref:

Joseph Carr
Finance Policy Leader
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Lion Court
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By E-mail.

Dear Joseph

The treatment of grant and depreciation when component accounting

The Institute of Chartered Accountants in England and Wales (ICAEW) is pleased to respond to your request for comments on *the treatment of grant and depreciation when component accounting*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

ICAEW REP 120/09

CONSULTATION PAPER ON THE TREATMENT OF GRANT AND DEPRECIATION WHEN COMPONENT ACCOUNTING

Memorandum of comment submitted in November 2009 by The Institute of Chartered Accountants in England and Wales, in response to the RSL Sorp working party's consultation paper on the treatment of grant and depreciation when component accounting published in October 2009.

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) round brackets welcomes the opportunity to comment on the consultation paper *Treatment of grant and depreciation when component accounting* published by the RSL Sorp Working Party.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.
4. The Institute's Social Housing Committee (the committee) is responsible for co-ordinating the technical considerations of the social housing sector with respect to Chartered Accountants working in or for registered social landlords, the interests of practitioners, their clients and Chartered Accountants employed in financial roles within the housing association sector.

General points

5. The interaction of component accounting, depreciation and grant is a very complex area. A number of questions arose in the course of discussion by Social Housing Sub-Committee (the Committee) that, although outside the scope of the consultation paper, indicated a need for further clear, detailed guidance.
6. Questions requiring more consideration include:
 - What changes of accounting treatment would represent a change of accounting policy, so necessitating a prior year adjustment, and what would be 'simply' a change of accounting estimate?
 - How should registered providers (RPs), that had introduced component accounting for part only of their stock, account for the change to full component accounting?
 - How should merged RPs account for components, where one party to the merger had adopted component accounting, but the other had not?
 - How should provisions for impairment be allocated?
7. We recommend that the SORP working party decide whether to issue guidance on component accounting by way of a Technical Note or by changing the SORP itself. Given that, if RPs are to be required to adopt component accounting with effect for accounting periods commencing on or after 1 April 2010, and that the new SORP may not be issued until the second half of 2010, the National Housing Federation needs to decide and communicate their approach as soon as possible.
8. Paragraph 14 of the paper deals with properties held at valuation. We consider that the paragraph needs a lot more consideration, as it lacks detail and understates the complexity of the issues. The closing valuation of the properties will be affected by component accounting even where the property is valued as a whole, since it is perfectly possible to reflect the different lives of the various components by separate depreciation charges even when the properties as a whole are carried at

a valuation. This already happens at present where valuations are always split by RSLs between land and buildings. Guidance should be given on how to split the valuation across components.

RESPONSES TO SPECIFIC QUESTIONS/POINTS

9. Do consultees consider that when component accounting is applied social housing grant should be:
- a) allocated against all of the identified components; or*
 - b) allocated against only the land and remaining structure element; or*
 - c) allocated on a net basis after depreciation has been charged against each identified component?*
- It would be helpful if consultees could explain their reasons for choosing/rejecting the options above.*

We do not consider that there is a single, right answer, although we do not support treatment 'c'. Allocation against only the land and remaining structure element (option 'b') will generally be the option chosen, on the grounds that it is a pragmatic approach that results in grant not being written off until the end of the useful life of the main structure. However, the variation of 'a' whereby the grant is allocated against all of the identified components and that part relating to an individual component written off when that component is replaced, would also be an appropriate treatment.

We support both 'a' (variant) and 'b' on the grounds that, although the grant is not included on the balance sheet, it is carried forward as a contingent liability, reflecting the reality of the arrangement whereby grant is only repayable if the property/component to which it relates is sold by the registered provider.

We do not support option 'a' without the variant, or option 'c'.

10. If option 'a' above is preferred, do consultees consider that on replacement of a component the allocated grant should also be released to the income and expenditure account? It would be helpful if consultees could explain the factors they considered in reaching their conclusions.
If option 'a' (variant) is adopted we should support release to the income and expenditure account of the part of the grant related to the component replaced.
11. If option 'c' above is preferred, do consultees consider that grant should be amortised to the income and expenditure account over the life of the asset to match the depreciation charge?
We do not support option 'c',
12. *Do consultees consider that there is a more appropriate option for allocating social grant when adopting component accounting than those discussed in this paper? If so, could consultees detail this option and why it is considered more appropriate?*

We do not consider that there is a more appropriate option for allocating social grant in component accounting than those set out in the paper.

13. A number of social landlords have already adopted component accounting. In these cases, which method e.g. Examples 1, 2 or 3, was used and why? If an alternative method was used can consultees explain what factors were considered in choosing this approach?

In the experience of our members, most housing associations that have adopted component accounting have followed option 'a', but this adoption may have been without full consideration of the detailed impact covered in the current consultation.

14. Do consultees consider that there are any significant tax consequences that may arise from adopting one method over another?
We do not expect there to be any significant tax consequences arising as a result of adopting one method rather than another, as we understand that a change to component accounting will be tax

neutral for non charitable housing associations that have released grant to income and expenditure account in the past.

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