Housing Bulletin – July 2018

SHPS accounting changes

In 2015, FRS 102 came into force, resulting in employers' SHPS liabilities being recognised on their balance sheet for the first time. As it was determined that the scheme's assets couldn't be accurately apportioned to each organisation, employers were instead required to show the capitalised value of any future deficit contributions payable under the scheme's Recovery Plan.

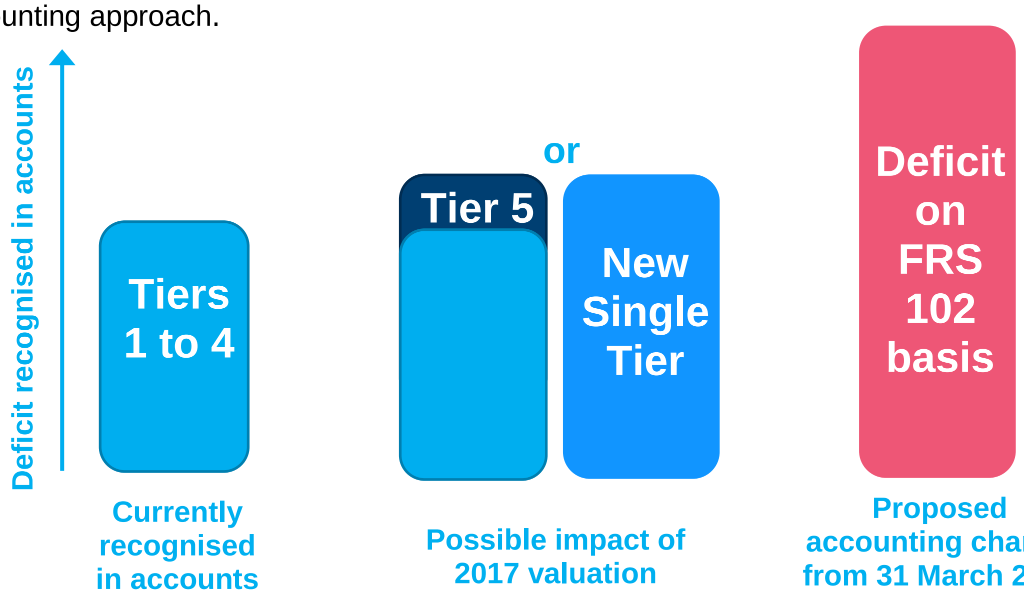
Following requests from some employers and the Housing SORP Working Party, TPT are developing a way to provide 'sufficient information' to all employers. As a result, employers will need to provide full disclosures in their accounts. The current proposals would bring this into effect from 31 March 2019.

What will this mean for your balance sheet?

In short, the proposals will most likely lead to a significant increase in the SHPS accounting liability shown in your accounts. One of the key drivers for the size of the accounting deficit is the assumption for future investment returns (the discount rate), which, under FRS 102, must be based on high quality corporate bonds.

As corporate bond yields have fallen in recent years, the gap between funding and accounting deficits has typically widened. **Your accounting deficit may therefore be significantly higher than the value of your future funding deficit contributions.** This may not always be the case – wind back 10 years and the position was reversed with the accounting deficit being lower than the value of funding contributions.

The chart below illustrates the possible impact of a new 2017 Recovery Plan under the current accounting practice alongside the possible greater impact of the proposed changes to the accounting approach.



Whether the proposed approach provides more accurate results is a matter of contention. What is the real cost of the scheme to an employer? You could argue that the capitalised value of the deficit contributions is a better representation of this cost than a fairly artificial valuation using bond yields.

However, the proposed approach will improve consistency with any other defined benefit pension disclosures in your accounts and will remove the effect of a 'jump' (or fall) in your I/E account from changes in deficit contributions every three years (triggered by signing off the triennial valuation).

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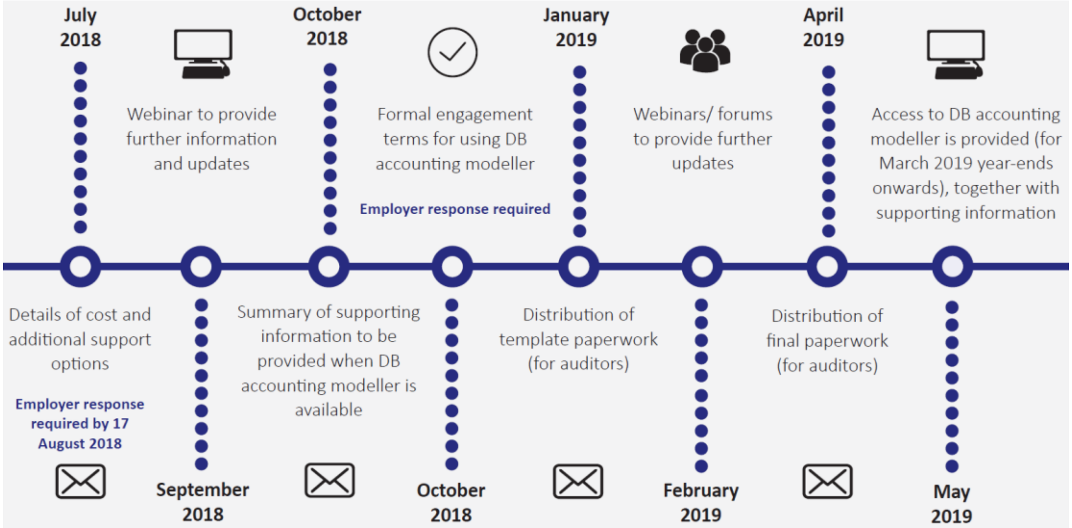
2019 accounting timeline

TPT recently released the following timeline for the proposed accounting changes.



The current proposal would introduce changes for accounting periods ending on 31 March 2019 or later. If the proposals go ahead, time will be short to explain the changes to board and audit committees.

What will this cost you?

TPT will shortly be issuing details of the costs of providing disclosures and support options available to you with responses required by 17 August through an online form. Costs are expected to be in the region of £5,000 for larger employers with an additional charge in the first year to cover implementation costs.

Do you have to make these changes?

Yes, with TPT now able to supply ‘sufficient information’, we expect auditors will require you to amend your accounting practice to fully comply with the requirements of FRS 102.

There is no requirement to use TPT to provide these disclosures however a central approach across the scheme is likely to be the most efficient. TPT has been developing the IT solution and presenting progress reports to the Housing SORP Working Party.

How can First Actuarial help?

We can help you estimate the impact of the changes on your organisation.

FRS102 assumptions are the responsibility of the directors. We can provide advice on alternative assumptions for use in TPT’s modeller.

Would you like to discuss SHPS accounting changes?

To discuss these proposed changes, contact your usual First Actuarial consultant or any of our Housing Team.

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