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Foundations 2023

Social Housing Insights

Audit / Tax / Advisory / Risk

Welcome to this spring 2023 edition of Foundations, our newsletter for the Social Housing sector.

Writing this editorial always gives me a chance to reflect on the key challenges and opportunities for the sector, what has changed and what is on the horizon. It has now been three years since I moved to Crowe as Head of Social Housing and in that time we have been struck by the impact of a global pandemic, had nine housing ministers (including six in the last year). Russia's invasion of Ukraine, the cost of living crisis, a spotlight on damp and mould, the Fire Safety and Building Safety Bills together with the Social Housing (Regulation) Bill winding their way through parliament and rent "capped" at 7%. My bedtime reading this year has been FRED 82 following issue of the consultation of proposed changes to FRS102 resulting from the second periodic review. I have provided some more detail later in my article.

Given the above, it would seem that the only constant for the sector is change, and this topic is explored by Vincent Marke, who I am delighted to say has joined us this year as a partner in our social purpose and non profit team, in his article "Managing Emerging Risk – How should the role of risk governance and assurance change?". This article reflects on the speed at which sector risks can change and potential responses to it.

Vincent's article includes an assessment of the top risks faced by organisations, using research undertaken by the Chartered Institute of Internal Auditors. The top ranked risk (for both 2023 and 2022) was cybersecurity and data security. Tim Robinson in our Cyber Security and Counter Fraud team sets out some of the key methods used by cybercriminals to target social housing providers, as well as steps that can be taken to mitigate the risks in his article "Building your resilience to fight the threat of cybercrime".

ESG has become increasingly important, covering a wide range of areas including decarbonisation, financing (ESG bonds) and ESG reporting since the launch of the Sustainability Reporting Standard for Social Housing in late 2020.

We are delighted that Alex Hindson has joined us as a partner and Head of Sustainability, and he and Simona Villa provide insight into "greenwashing", where organisations seek to persuade the public that their products are environmentally friendly when they are not, and the importance of net zero for the sector.

Adam Cutler as always provides a round up of topical tax issues, and provides a new insight into an old topic, in reassessing providers approach to "golden brick".

Crowe has been involved in the social housing and care sector for many years, and we continue to act as technical advisor to the SORP Working Party. In this role we are supporting a sector response to the recent FRED 82 arising from the second periodic review of FRS 102 as well as the re-write of the Housing SORP on the horizon. I will be addressing these issues in my session at the NHF Finance Conference on 15th March entitled "The new Accounting Framework" and I look forward to seeing many of your there.

These continue to be challenging times for the sector and I wish to re-affirm our support to achieving excellence in financial reporting, financial management, tax strategy, risk management and governance. We would love to speak to you if we can help you and your organisation in any way, so please get in touch.

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Financial Reporting Exposure Draft, FRED 82 Draft amendments to FRS 102 The Financial Reporting Standard, has been published for consultation.

FRED 82 proposes a number of amendments to accounting requirements to reflect changes in IFRS Accounting standards, along with other incremental improvements and clarifications.

FRED 82 proposes a number of amendments to accounting requirements to reflect changes in IFRS Accounting standards, along with other incremental improvements and clarifications.

The proposed changes include:

• Changes to revenue recognition, based on the five-step model for revenue recognition from IFRS 15 'Revenue from Contracts with Customers', with appropriate simplifications.

• Changes to lease accounting requirements, based on the on-balance sheet model from IFRS 16 'Leases', with some simplifications.

• Changes to fair value measurement definitions to reflect the principles of IFRS 13 'Fair Value Measurement'.

Revenue recognition

The proposals introduce the five-step revenue recognition model which originates from IFRS 15 'Revenue from Contracts with Customers'. Previously under UK GAAP, revenue recognition fell into two areas – revenue from the sale of goods, and revenue from the rendering of services with additional guidance around construction contracts.

This new model will require Housing Providers to consider the individual terms of revenue-generating contracts in order to appropriately recognise revenue. To apply the model, an entity shall take the following steps:

1. Identify the contract(s) with a customer;
2. Identify the promises in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the promises in the contract; and
5. Recognise revenue when (or as) the entity satisfies a promise.

It is however worth noting that this model does not apply to lease contracts within the scope of Section 20 Leases. This is a key consideration currently of the Housing SORP Working Party and we welcome the sector thoughts on this matter.

Leases

The biggest change is the proposed removal of the distinction between a finance lease and an operating lease for lessees. All leases, subject to certain limited exceptions, will be brought onto the balance sheet in a manner consistent with the current treatment for a finance lease.

Where a business has, for example, significant property leases, these will need to be recognised on the balance sheet as a 'right of use asset' ('ROUA') with a corresponding lease liability. Previously such leases would have been an operating lease accounted for on a 'pay as you go' basis with future liability only a disclosure within the financial statements.

The effect on reported profit will be to remove the rental charge and replace it with amortisation of the ROUA and an interest expense on the lease liability. Although the total effect on profit for the duration of the lease is the same, the accounting will change the timing of the expense, it becoming front end loaded with a higher total expense recognised in the first third of the lease, but with a lower comparative expense in the final third.

As the expense is accounted for as amortisation and interest, rather than rent, this will change key performance measures such as earnings before interest, depreciation and amortisation (EBITDA) and the interest expense. Reported EBITDA will increase under the proposals, but with an increase in the interest expense which may impact on loan covenants.

In the cash flow statement, the rentals, previously treated as part of operating cash flows, will be replaced with an interest cash flow, and liability repayments, the latter being classified as financing cash flows. The net effect is that a business will report higher cash generated from operations, but with an increase in financing cash flows. The overall net cash flow will be the same.

Making the changes

Implementing the changes will also present management with additional challenges in preparing accounts. Management will need to determine, for example, what is a lease, what is the lease term, what future payments to include and what discount rate to apply to the future payments.

What is a lease?

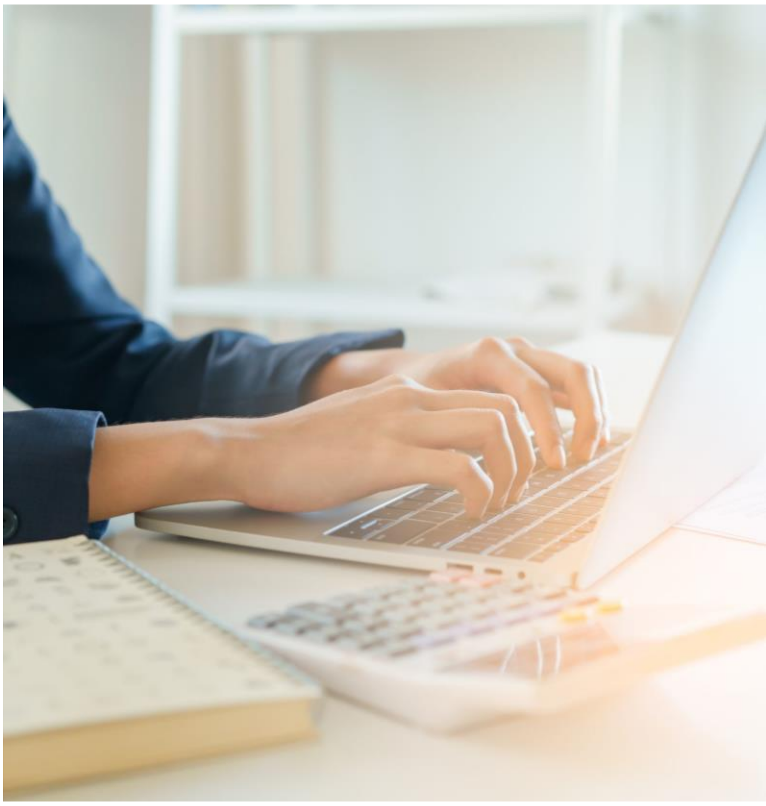
This is quite complex, but broadly, where the arrangement provides the lessee with the ability to control the use of a defined asset for a period of time it will be a lease.

How are the ROUA and lease liability measured?

The ROUA is set as the amount of the lease liability, together with any payments made before commencement of the lease and less any incentives received. The lease liability is the lease payments due to be made over the lease term. Where there are options to extend a lease, these will be included but only where it is reasonably certain that the extension will be taken.

The discount rate must be established, with a fall back to a rate based on gilts if an incremental rate cannot be readily determined. The payments include fixed amounts due under the lease. If the payments are variable, for example, they are linked to turnover, these are only accounted for when due. Where the lease includes amounts for services other than the use of the asset, for example, service charges, these need to be identified, quantified and accounted for separately.

Where a business is concerned about the size of the liability being recognised, the use of shorter lease terms and variable payments can reduce this, but consideration should be given to whether this the right choice commercially, as this may expose the business to a future uncertainty as regards security over the property and the future cost.



Where the business has a number of leases, the assessment will need to be performed for each. If existing lease arrangements are due to be renewed, how the accounting will change may also be a factor in those negotiations, and we would advise understanding the effect in advance.

What exemptions are available?

There are two main exemptions for lessees. If the lease term is no more than 12 months, it may be accounted for as currently for an operating lease. This is on a straight line basis over the lease term, and without recognition of a lease liability on the balance sheet. Similarly, if the underlying asset if of low value it may also adopt this treatment. A low value asset is not defined by monetary amounts, but typically would include items such a laptops, mobile phones and small items of furniture.

Lessors

The accounting for lessors remains broadly the same as existing requirements, with the distinction, and different accounting applying, depending upon whether the lease is an operating lease or a finance lease. Most leases with tenants will be classed as operating leases. The Housing SORP working party are considering whether there is any impact on Share Ownership where the accounting treatment is currently provided in the SORP.

The changes to lessee accounting will have consequences for lessors where they enter into back to back arrangements or sale and leasebacks.

Fair value

The proposals introduce a new appendix on Fair Value Measurement which provides more details on measurement and valuation techniques. The Housing SORP Working Party will be looking at how this will interact with the SORP going forward.

Other proposed changes

The Financial Reporting Council's (FRC) has stated that the decision on whether to align FRS 102, with the expected credit loss model of financial asset impairment from IFRS 9 Financial Instruments, will be deferred to a further consultation. There are some proposed changes to expected credit loss disclosures to include quantitative and qualitative information, about amounts arising from expected credit losses on certain financial instruments such as loans. The proposed disclosures are only applicable when a rare decision has been made to apply IFRS 9 on Financial Instruments.

The proposals also introduce a new definition of an asset being "*An asset is a present economic resource controlled by the entity as a result of past events.*

An economic resource is a right that has the potential to produce economic benefits."

Compared to the existing definition of an asset in FRS102, this definition removes the direct linkage of benefits to cashflows or equivalents. Currently FRS102 states *"The future economic benefit of an asset is its potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. Those cash flows may come from using the asset or from disposing of it."*

However, the proposals do not provide further guidance on capitalisation of asset enhancements intended to provide climate or other ESG benefits which the Housing SORP working party consider an important sector matter due to the net carbon zero targets imposed on housing providers.

The FRC made this comment in the basis of conclusion "Stakeholders sought additional guidance regarding the capitalisation of asset enhancements intended to provide climate or other ESG benefits. The amendments proposed to Section 2 introduce a new definition of an asset. This sets out examples of rights that have the potential to produce economic benefits, including a right to use a physical object.

The FRC does not propose to make amendments to Section 17 at this time in relation to this issue."

We feel it is appropriate for Housing Providers to seek further clarity from the FRC in this regard.

The Housing SORP Working Party are also looking at how these changes to Section 2 and Section 17 impact on the ongoing discussions around building/fire safety work impacts such as capitalisation, provisions and impairment.

Timing

The consultation includes a planned timeline for proposals to be effective for accounting periods beginning on or after 1 January 2025.

We encourage the sector to respond to this important consultation on financial reporting. Comments on FRED 82, including the consultation stage impact assessment, are requested by 30 April 2023. The consultation can be accessed here - https://www.frc.org.uk/consultation-list/2022/fred-82 .

Alongside the FRS102 periodic review will be a re-write of the Housing SORP, consultation on planned changes is expected in Spring 2024.

For further information, please get in touch with Julia Poulter or your usual Crowe contact.

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Opting to tax

Some common misconceptions

Housing associations will frequently come across the option to tax. Where they are acquiring land, they will often have to deal with a vendor who has opted to tax the land being sold. When they acquire or develop non-residential units, they will often want to opt to tax in order to recover VAT on their acquisition and development costs. However, there are several misconceptions about some of the practicalities.

What does it apply to?

An option to tax is not made over a building, but over land. Although the rules were less clear before 1 June 2008, legislation applying since then makes it clear that it is the land that is being opted.

In practice, a piece of land may be most easily identified by the building on it. The owner of the office building at 17 Banbury Street might simply use this address to establish the land over which it has opted to tax. However, if the office building were to be demolished and the land sold, the vendor would still need to charge VAT.

Many people believe that the option to tax attaches to the property and so automatically applies to future owners. This is not the case – it only binds the party that opted (and sometimes other group companies if they are common members of a VAT group). So, if 17 Banbury Street is sold, and the purchaser does not opt to tax, rental income received by the new owner will be exempt.

In practice, a housing association acquiring a commercial property that it intends to keep will often want to opt to tax, in order to recover the VAT charged on its purchase, or to enable ‘transfer of a going concern’ (TOGC) treatment.

Can I opt to tax if I do not own the property yet?

Yes! You do not need to own a property in order to opt to tax. Indeed, for TOGC treatment to apply to the transfer of a tenanted property where the vendor has opted to tax, it is necessary for the purchaser to have exercised its own option to tax and sent the relevant notification to HMRC before the transaction happens, otherwise the vendor will have to charge VAT.

What is true is that an option to tax automatically lapses if you do not acquire an interest in the property within six years. This may have caused the confusion.

What paperwork do you need to do?

Opting to tax is actually a two-stage process.

The first is to make the formal decision to exercise the option to tax. There is no set way to record this, but we recommend something formal like a board minute or director's resolution – something that confirms what the exact land being opted and from what date, and shows that this decision was made by someone who was duly authorised.

The second step is to send a formal notification of this to HMRC. This should be done within 30 days of the effective date. The easiest way to do this is using HMRC's form VAT1614A. We recommend emailing this to HMRC, putting your VAT registration number and the land details in the subject line. HMRC's systems should give an automatic response confirming delivery, which can be a useful email should you ever need to prove this.

In practice, many people will exercise the option to tax and send the notification off to HMRC on the same date. For this reason, a copy of the notification form is often the only document that records the decision. However, it is good practice to keep these separate.

Presumably the Finance Director should sign the form?

Unfortunately, this is not always correct for housing associations. Most housing associations are community benefit societies (CBS) and only some executive directors will be board members. HMRC's official guidance states that the form should be signed by the chairperson, treasurer, trustee or company secretary of a CBS. We understood that, following lobbying by various parties, including Crowe, HMRC accepted that any board director or executive director of a housing association could sign the notification. However, in the last few months HMRC has implied that this more pragmatic list was not officially recognised.

Do I need a letter back from HMRC to make my option to tax 'official'?

In the past, the final stage of the process would be a response from HMRC. HMRC would send a formal letter acknowledging receipt of the option to tax, providing further confirmation of precisely what land had been opted, by whom, and from what date. Helpfully, HMRC used to undertake a thorough review of the notifications they received, comparing land references given to the land registry, ensuring that a form signatory was listed as a director, etc, and would frequently come back with clarification questions.

Unfortunately, as a result of the COVID-19 pandemic, a backlog of many months built-up. In order to speed-up response times, in 2022, HMRC reduced these checks considerably. This approach was initially temporary, but from 1 February 2023 this has become a permanent change. While we have seen some letters from HMRC noting receipt of the form since the change, these state that the response is not an acknowledgement. It is clear that responses from HMRC can no longer be relied upon as an independent check of all details on the notification form.

It is important to note that it has never been necessary to have received an acknowledgement letter for the option to tax to be valid (for completeness, there are a small number of situations where HMRC's prior approval is required, but that is a different point). With HMRC's turnaround times on acknowledgement letters having unnecessarily held-up many transactions over the last few years, most lawyers in the room were aware of this. Reviewing contracts recently, it is notable that they now typically require evidence that the notification was sent, rather than any response from HMRC received.

Disapplying the option to tax

Housing associations that are registered providers (and their equivalents outside of England) can serve a certificate to a vendor which dis-applies their option to tax. This does not mean that their option to tax has disappeared, but that it has no effect on the land being sold. This is only possible to the extent that the land is intended for residential purposes, so if part of the site will be used to construct a new office, they will still charge VAT on that.

This certificate (Form VAT1614G) should be provided to the vendor before exchange of contracts in most cases. It does not need to be sent to HMRC.

There are other situations where the option to tax can be dis-applied, not all of which require certification. In particular, the option to tax has no effect in relation to dwellings. If a housing association opts to tax a building comprising shops with flats above, its rents and service charges to the flats will remain exempt.

In summary

Deciding whether to exercise the option to tax is an important decision, which can be very costly to get wrong. If you are seeking to disapply the option to tax, it is important to discuss this with the vendor and issue the relevant certificates at the right time. It is also important that the paperwork is also completed correctly and promptly to avoid uncertainties down the track.

As with other aspects of VAT, the specific facts of each transaction should be considered ahead of time, to avoid unexpected delays or VAT costs arising.

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The importance of Net Zero for Social Housing

Social housing associations require plans in place to achieve the Net Zero targets set by the UK Government.

Reducing emissions and achieving Net Zero is crucial to limit global warming to 1.5°C above pre-industrial levels and avoid the most catastrophic impacts of climate change. An increasing number of organisations have now realised the strategic role that Net Zero plays in addressing climate change, and are working to align their business plans and activities with a net zero path.

As for any other organisation, social housing associations need to develop plans and implement activities to contribute to the fight against climate change. While this sector plays a crucial role from a social perspective, the environmental element should not be underestimated. According to the BEIS Department, in 2021 the residential sector accounted for 16% of the UK's total carbon emissions.

To achieve the UK government's climate objectives and reach net zero by 2050, the housing market will require to eliminate all its carbon emissions by the same year.

How to reach net zero

An increasing number of organisations are planning on taking action to achieve a more sustainable business. For a successful transition to Net Zero, organisations are working on a series of activities that can be summarised in the building blocks on the next page.

1	Setting the organisation's climate ambition. This activity will allow associations to understand the different Net Zero ambition levels and determine the aspiration and intensity of the activities required to achieve their net zero objectives. During this activity, associations should also consider wider ESG requirements, including the enhanced Minimum Energy Efficiency Standards.
2	Collecting and aggregating a variety of data, and developing an emissions inventory. For this sector, most of the direct emissions will likely relate to the use of buildings, including their energy and gas consumption. While heating technologies are advancing, the replacement of natural gas with greener solutions is still representing a considerable cost, impacting the associations' budget.
3	Setting emission reduction targets. The objective of this step is to determine the high-level and specific targets for each of the emission components identified in the previous phase. Ideally, targets should reflect short-term and long-term objectives and should align with the net zero ambition that has been set.
4	Establishing an action plan to enable the organisation to achieve the required emission reductions, the management of ongoing internal and external communications, and regular disclosures. While there are no current mandatory disclosures directly affecting the social housing market, the Sustainability Reporting Standard for Social Housing provides some voluntary guidelines that associations can use to disclose their progress.
5	Identifying and implementing required changes to the existing organisational operating model to ensure the net zero processes, learnings and knowledge can be fully integrated into the ongoing operations.

How Crowe can help

In the current context, where keeping pace with the climate transformation is becoming increasingly difficult and requires complex choices, Crowe helps organisations to translate climate issues into opportunities, enabling them to determine the best approach and plan to address their climate ambition and add value to their business. Through our practical and experienced team, Crowe can offer different services, from working with our clients to deliver an end-to-end solution to providing support by reviewing their work in specific areas.

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Managing Emerging Risk – How should the role of risk governance and assurance change?

I, like others interested in risk management in the sector, look forward to reading and digesting the RSH “Sector Risk Profile” issued annually, typically in the autumn. This useful document sets out the regulator’s view of the most significant sources of risk to providers’ ongoing compliance with their standards, and for a number of years has been split into a number of headings;

- Strategic Risks
- Operational Risks – existing stock and service delivery
- Operational Risks – development; and
- Finance and treasury management

The Sector Risk profile report does a good job of capturing the key risks facing the sector (albeit on a global level which is to be expected) and I have in the past suggested that most RPs would find it beneficial for their risk maps to mirror the risks outlined in this document, in as far as they are seen to apply to individual organisations. However, one aspect which those charged with governance over risk management could perhaps consider further, is whether the sector risks profile report (and RPs own risk mas) adequately manage so called “emerging risks”.

There is no standard definition for what constitutes an “emerging risk”. The Charities Sector Special Interest Group defines emerging risks as “a risk that is evolving in areas and ways where the body of available knowledge is weak”. The Chief Risk Officer (CRO) forum defines emerging risks as “risks which may develop or which already exist that are difficult to quantify and may have a high potential loss”.

Characteristics of emerging risks include;

- Large scale events
- Often, arises from global trends
- Can cross geographic borders, industries and sectors
- Difficult to quantify the impact
- Hard to predict
- High risk velocity (more on this later); and where
- Traditional risk management identification and assessment process may not work

Recently it has been argued (and I would not disagree) that these events have become more prevalent; climate change (both flooding and warming), Brexit, Covid-19, Russia’s invasion of Ukraine. There are other examples both inside and outside the social housing sector including the Grenfell Tower Disaster, Hurricane Katrina (2005) and the Deepwater Horizon BP Oil Spill (2010) where accepting with a large dose of hindsight, that these events were or could have been predicted with a better methodology got the capture and assessment of emerging risk.

> **There are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns – the ones we don’t know we don’t know**
>
> **- Donald Rumsfeld**

Whilst Hurricane Katrina was the costliest natural disaster and one of the five deadliest hurricanes in the history of the United States, the event itself was not unidentified, it was the consequences that were unidentified (together with the scale). Likewise, with the Deepwater Horizon BP Oil Spill, whilst some people might think that the risk was technical in nature and that it happened unexpectedly, hindsight has revealed that there was a “rush to completion” and that management made some poor decisions, despite several indications of potential hazard.

Likewise, Brexit, Covid-19 and Russia’s invasion of Ukraine were not identified in the sector risk profile documents issued prior to the events taking place, but there is much evidence that such events were or could have been predicted. Most organisations have some form of identification of emerging risks in their current risk management processes, often this is bullets underneath existing identified risks in risk maps. However, I rarely see an effective framework for the management and governance of such risks.

So why have events such as these been so difficult to identify, and perhaps more pertinently to manage? In many instances these risks are less structured and the response requires people and cultural aspects, working on a principle rather than a quantitative “risk-issue-action” approach.

I think that an obvious answer, as listed above, is that it is difficult – managing known unknowns and unknown unknowns is a lot harder than managing known knowns (for example welfare reform or counterparty risks as set out in the sector risk profile).

As seen in the diagram below, anticipating and exploring uncertain futures is more difficult than where risks are more familiar, and might need different management.

Anticipating vs exploring uncertain futures [source Walker, W.E., Marchau, V.A.W.J & Swanson (2010)]

	Level 1	Level 2	Level 3	Level 4
			Deep uncertainty	
Context	A clear enough future	Alternate future (with probabilities)	A multiplicity of plausible future	Unknown futures
	Familiar risks		**Emerging risks**	

Another factor is that these events are often typified by having a high-risk velocity, i.e. they affect organisations very quickly, which can make it very hard to manage. I would also argue that the identification, management and governance of emerging risks needs to be improved. Whilst RPs have now got good processes for building business plans, and stress testing thereon, this is designed (primarily) to manage the fall out of risk once it has happened, rather than manage (emerging) risk prior to such events taking place.

Management of emerging risk – a potential risk management framework

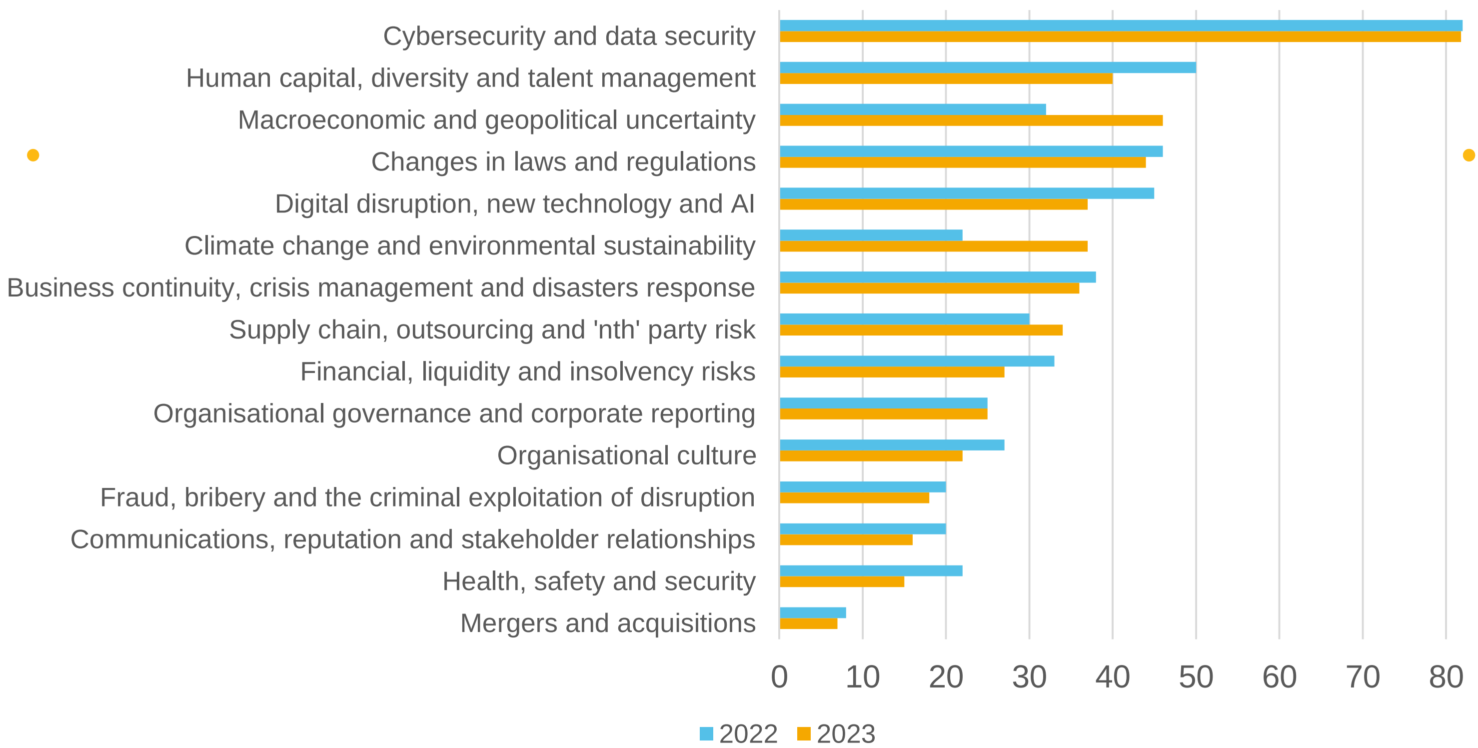
One potential framework for the management of emerging risk could be;

1. Design a process for fully understanding the present – then exploring the future (requiring framing of risk discussion and innovation)
2. Developing scenarios based in narratives & models (develop or use various types of scenarios to explore and evaluate the emerging risk that could affect the organisation in the future)
3. Generate risk management options & formulate strategy for implementation (with a focus on acting on controllable factors that contribute to risk, developing precautionary approaches such as trying to avoid the risk, reducing vulnerability through a reduction in exposure, or modifying risk appetite in line with the risk)
4. Implement the strategy – creating supportive conditions for the organisational, technical and cultural shifts that may be required for the effective deployment of risk management options
5. Review risk development and decisions (including reviewing systems by which emerging risks and opportunities unfold)

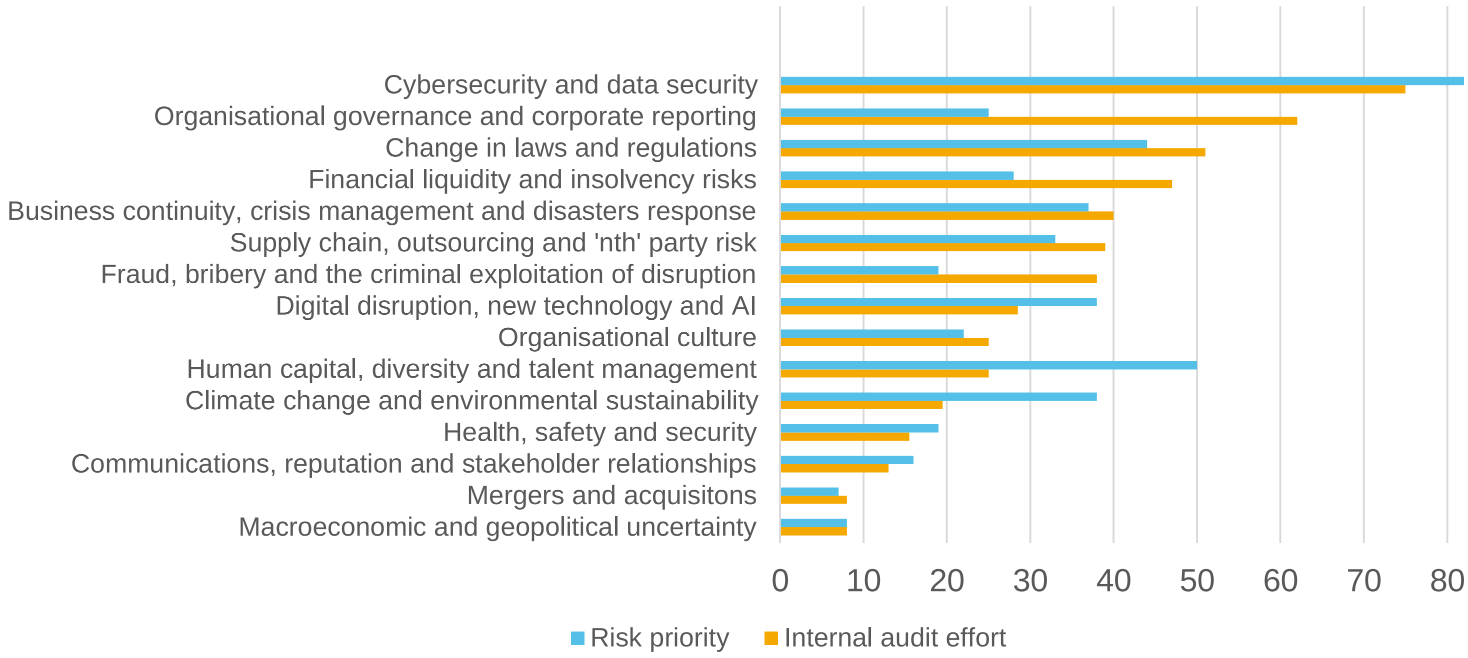
How do current internal audit programmes typically deal with emerging risk?

The Chartered Institute of Internal Auditors (IIA) produce a useful analysis each year of the top risks to organisations, coupled with where internal auditors spend their time. This study is cross sectoral but provides a useful barometer to sense check internal audit coverage and your risk analysis. What is striking is when you view the comparison of what Heads of Internal Audit view as the organisation's key risks against where internal audit resource is committed. Whilst there is a focus on cyber and data risks, there is less so on "Macroeconomic and Political uncertainty" and "Human Capital, Diversity and Talent Management" whilst a focus on "Organisational Governance and Corporate Reporting". This potentially supports my view that internal audit is focussing on the "Known Knowns" rather than the emerging strategic risks.

Top 5 risks to the organisation – IIA Risks in Focus



Where internal auditors spend their time



A couple of standouts from this research include;

More consideration of these global, ephemeral risks, such as “macroeconomic and geopolitical uncertainty” and “human capital, diversity and talent management”, which can be more difficult to clearly identify, manage and govern; and

Current internal audit programmes typically do not apply the appropriate level of resource to these areas commensurate with the risk (noting in particular the areas of human capital, climate change and macroeconomic and political uncertainty)

How we believe that the role of assurance should change

Given the points referenced above and the changing risk landscape, we believe there are a number of principles which should inform the changing approach to internal audit;

There is a need to elevate the role and remit of internal audit, coupled with a move away from routine compliance and assurance activities.

There is a need to balance the assurance role with advisory and forward looking/ proactive identification and risk assurance. We would also recommend that consideration is given as to whether the current risk, governance and internal audit processes have been outpaced by the rate of change in the risk environment, and how this can adapt going forwards.

How Crowe can help

Crowe’s Risk Consulting team supports organisations in developing, refreshing and embedding risk management practices. Our team has been awarded the title of “Risk consultancy of the year” for four years in a row by InsuranceERM. For more information on our services please speak to Vincent.

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Build your resilience to fight the threat of cybercrime

Cybercrime is the problem of our age and this is made worse by the fact that the nature of the problem changes and develops with an ever-increasing speed.

As the prevalence of cybercrime continues to grow across all sectors, the risk to housing associations is real and it must be addressed if they are to remain resilient. Sadly, it is a well-known fact that it's not if you will experience a cyber-attack, but when. Social housing providers hold large amounts of sensitive, personal and financial information about tenants, making them attractive targets for cybercriminals to breach and extort, particularly through ransomware attacks.

Recent examples, such as the attack against Clarion in June 2022, have shown the significant operational, financial, legal and reputational impacts a cyber incident can have. For example, the cost of responding to a data breach, such as the investigation, notifying affected individuals, and repairing damaged systems, can be substantial. In addition, a cyber-attack can lead to serious reputational damage and loss of trust from tenants and other stakeholders. According to a 2019 report by the UK National Cyber Security Centre, social housing providers are the fourth-most targeted sector for cyberattacks, after the financial, professional services, and public sectors.

What are the key methods that cybercriminals use to target social housing providers:

1. **Phishing attacks:** These are predominantly email-based attacks that socially engineer and trick users into revealing sensitive information, such as login credentials, financial information, or personal data.
2. **Ransomware attacks:** Ransomware is a type of malware that encrypts a victim's files and demands payment in exchange for the decryption key. Social housing providers are particularly vulnerable to this type of attack, as they often store large amounts of sensitive tenant data.
3. **Data breaches:** Social housing providers hold a large amount of personal information about tenants, including names, addresses, financial information, and sensitive data such as criminal records. A data breach can result in this information being stolen or used for malicious purposes.
4. **Malware infections:** Malware is a type of software designed to cause harm to a computer system or network. Social housing providers are at risk of malware infections if their systems are not properly protected or if they fall victim to phishing attacks.
5. **Network intrusions:** Social housing providers may also be vulnerable to network intrusions, where attackers gain unauthorized access to a network and steal or manipulate data.

[1] Inside Housing - News - Country's largest housing association hit by cyber attack

Positively, the significance of the threat posed by cybercrime is now being understood. The Department for Digital, Culture, Media & Sport's Cyber Security Breaches Survey 2022 measured that 82% of boards or senior management within UK businesses rate cyber security as a 'very high' or 'fairly high' priority, an increase on 77% in 2021. In comparison, 72% of charities rate cyber security as a 'very high' or 'fairly high' priority. As awareness around the risk of cyber increases, knowledge follows and resilience can be built.

It's important for social housing providers to take cybercrime seriously and to take steps to protect themselves against these threats. Cyber should be viewed as a governance issue and not just siloed off to those in IT roles to deal with. However, putting in place a robust set of technical controls and policies to effectively manage security, mitigate the risk and effectively navigate an incident if it occurs need not be overly daunting and unachievable tasks when broken down.

Cyber security cannot be seen as a solely technical issue and be left to a company's IT function to manage. Leadership must fully understand their governance responsibilities if they are to effectively manage the entirety of this significant risk.

Nevertheless, there are a number of relatively cost-effective measures that organisations can, and should, do to increase their resilience. Below is a short, and by no means exhaustive list, of key areas to address.

- Conduct regular cyber resilience assessments – not just of the organisation itself, but across your suppliers as well, to make sure security measures are implemented.
- Develop a cyber resilience policy – the risk from cyber is ever-changing, make sure your policy and strategy is robust to counter it.
- Develop a 'go-to' cyber incident response policy – know your actions to take in the event of an incident and who from a governance position has responsibility to manage that response.
- Train your people – they are your first line of defence so make sure they know how to recognise and respond to cyber threats, particularly from phishing attempts.
- Use multi-factor authentication (MFA) on user accounts – limit the impact of a serious breach if a user's credentials are compromised.
- Regularly update software and systems – security patches should be tested and deployed as soon as possible.
- Test your systems – use tools to find weaknesses and then rectify those issues. Internal and External Vulnerability Assessments can be cost-effective ways to get an external view of weaknesses that a cybercriminal could also easily see and exploit.
- Limit access to sensitive data and important systems – reduce access to only those who have a requirement to help limit the impact if credentials are compromised. Back up your data regularly and in a secure location in the event of a major incident - this will be essential.

Please contact Tim Robinson if you would like more information on the threats from cybercrime and how Crowe's cyber specialists can support your housing association to build resilience and respond to an attack.

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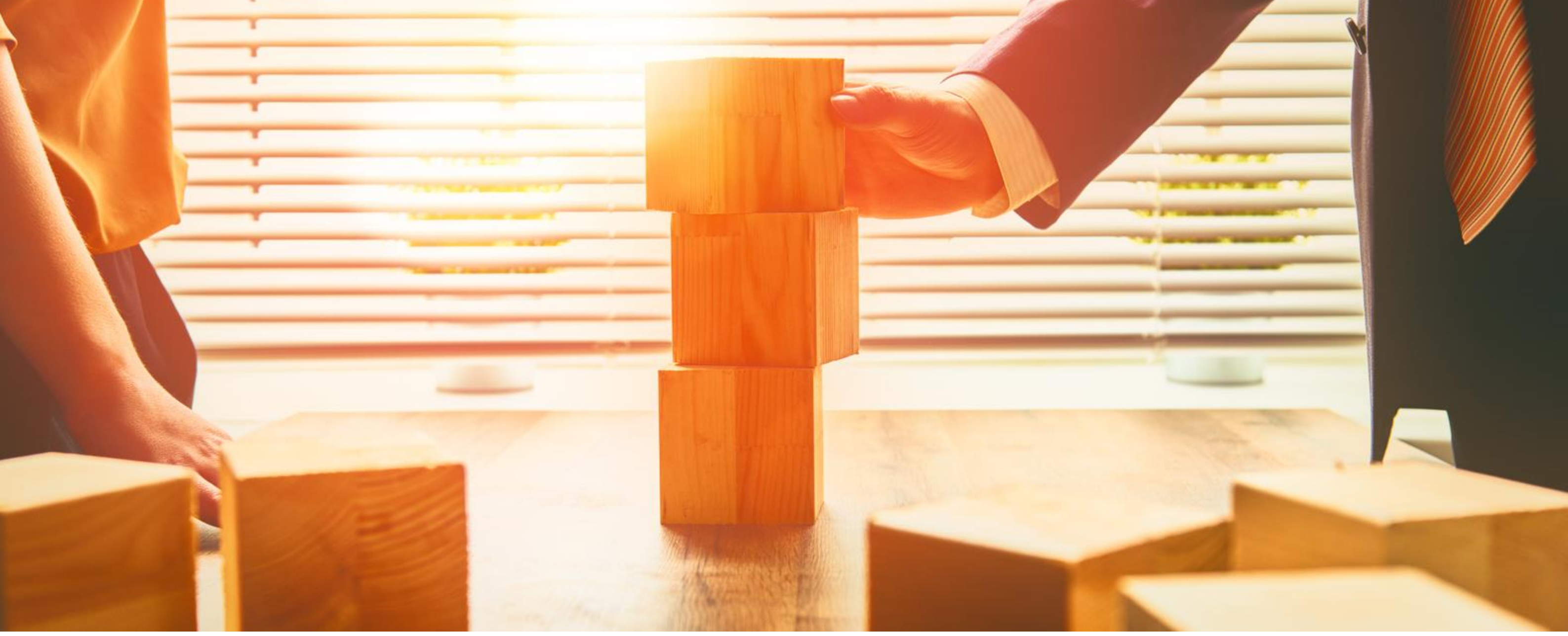
[2] Cyber Security Breaches Survey 2022 - GOV.UK (www.gov.uk)



Golden Brick – time for a rethink?

Golden Brick is a popular structure for acquiring land for development. Rather than acquire a bare plot of land or a completed building, the housing association acquires the site when the new building is under construction – after it has reached the 'golden brick' point. This is VAT-efficient for both the seller and the association.

However, the traditional structure of golden brick is becoming increasingly unworkable. Waiting until the new building is substantially under construction before the land can be sold causes significant cashflow issues for the developer. While it may be possible, in principle, for the housing association to pay in advance of owning the land, we are finding Boards are increasingly reluctant to sanction this.

With more developments being land-led, the vendor will not normally be able to do the construction works required.

An alternative may be for a subsidiary to acquire the land and construct the building to this point. However, this comes with financing and SDLT issues.

I also question whether our understanding of when 'golden brick' is achieved needs updating. Traditionally this has been accepted as one level of brick above the damp proof course. However, this may not be the point at which many modern buildings would be seen as being 'clearly under construction'. In particular, it does not fit well with modern methods of construction – if the walls of the building are currently off-site, have they been constructed yet?

This, and other VAT topics, were discussed in our VAT update webinar on 23rd February 2023. A recording of this webinar can be accessed here - *https://event.on24.com/wcc/r/4097145/9CB37BC5DD1E3109D3FDF80555474774*

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You can read the full article in Social Housing magazine.

Greenwashing - To disclose or not disclose, that is the question?

What is the concern about Greenwashing?

According to Forbes, ‘greenwashing’ is a form of marketing spin whereby organisations seek to persuade the public that their products, organisations and policies are environmentally friendly, when in fact they are not. This causes problems for those outlining their sustainability credentials to a sceptical world.

The obvious concern from stakeholders is that these types of disclosures are misleading.

From a corporate perspective, this can be seen as short-term thinking, on the basis that ‘the truth will out’ and what will be lost as a result, is the trust of stakeholders and trust is far more valuable than any short-term green credentials.

From an enterprise-wide risk management perspective, greenwashing is bad for all aspects of the organisation and the stakeholders involved and the real problem will be the lack of trust greenwashing proposes.

This article will explore:

- demand for independent verification
- demand for standardisation.

What are the concerns with ESG disclosure?

The long-standing concern regarding providing non-mandatory ESG reporting, is that an organisation opens itself up to further scrutiny. Every disclosure becomes a ‘hostage to fortune’ depending on what might happen in the future to bring ‘innocent’ data into focus, with the benefit of 20-20 hindsight.

In this context, any disclosure suggestion has to pass a ‘why would we do this?’ test.

What are the arguments for ESG disclosure?

The arguments for ESG disclosure are the same for all corporate disclosures. The agency problem associated with publicly listed companies means that management have more information than shareholders or wider stakeholders, causing an imbalance in informational power.

Disclosure is therefore good, because it ensures transparency and allow stakeholders to make decisions on whether to engage with organisations based on a common set of data.

ESG reporting and stakeholder expectation

Each organisation has a unique set of stakeholders, depending on its corporate structure (public, private, mutual, not-for-profit), industry sector and regulatory environment.

All organisations however, have some form of external business partners, customers, employees and board or management team. To this may be added, investors, regulators, ESG rating agencies, insurers or auditors. Each group of stakeholders will have differing levels of influence and will ultimately shape the context within which an organisation determines its sustainability strategy. This sustainability strategy will drive what each organisation prioritises and reports on.

In an ideal world, organisations would have regular objective meetings with stakeholders to ensure the ESG disclosures are aligned with expectations. In practice, there is a need to provide an aggregated view of what management believes is most relevant. This is where the greenwashing risk enters. How does management determine what is relevant and appropriate to disclose and is there temptation to accentuate the positive and leave out the 'non-correlating' facts that do not fit with the overall storyline?

The advantages of standardisation and verification of ESG reporting

Investors and stock exchanges are pressing for both standardisation and verification of disclosures. This is the best way for outside stakeholders to compare and contrast the ESG performance of different organisations and to hold management to account. The advent of global standards such as, the International Sustainability Standards Board (ISSB), established under the direction of the IFRS Council, is expected to drive standardisation. Organisations will be expected to provide a core set of ESG performance metrics, plus a number of sector-specific metrics.

Currently, many organisations are free to report on their ESG performance in their own way and the challenge of comparing 'apples and pears' is exacerbated by a wide range of ESG rating organisations, each providing their own ESG scores, which don't necessarily correlate.

External verification is likely to be initially driven by stock exchange requirements, but over time, it is likely that those that don't provide certification or audit their disclosures will stand out as the exception.

The disadvantages of standardisation and verification of ESG reporting

Every action causes a reaction. So, what might be the downside of these developments? In this case, we could anticipate a disconnect between templated ESG-disclosures and the ever-evolving nature of sustainability programs, that need to keep evolving to address the ESG challenges facing particular organisations. ESG reports will continue focusing on strong audit trails and internal controls rather than data sources that allow external certification and as a result, this could lock-in a specific set of metrics which could become 'boiler plate' over time. One could imagine that, as a result, ESG reports become 'tame', in terms of driving change, and lose their cutting edge.

How to navigate through the uncertainty?

The answer is clearly – with care.

From previous experience, the organisation I worked for recognised the coming winds of change and wanted to prepare for additional scrutiny. This meant strengthening our controls over non-financial reporting. We began by mapping our processes and documenting our reporting steps. Internal Audit were asked to provide an assurance review, to highlight areas where controls could be strengthened for future reporting and in preparation for enhanced scrutiny.

The risk management function helped management think through the decision on what metrics to disclose beyond what is currently mandatory. For these voluntary disclosures, there isn't a right or wrong answer and so it was

ultimately a risk-based decision.

The company adopted a risk-based approach considering two simple criteria.

Concern over Reliability (high, medium, low) whether the supporting data could not be adequately assured (i.e. not representative of a sustained 'story' or trend, or too volatile to be meaningful).

Concern over Release (high, medium, low) whether disclosure could lead to wider implications of concern for the company. Data owners were asked to provide the scoring, with justifications.

Anything scoring 'high' on both considerations was omitted from this specific report, and would be revisited in future, as confidence over data and disclosure grew. The process can be summarised in Figure 1.

Data	Concern over Reliability	Concern over Release	Risk level	Action step
Item 1	Low	Low	Low	Disclosure approved
Item 2	Low	High	Medium	Revisit risk appetite and consider disclosure options
Item 3	High	Low	Medium	Strengthen controls and revisit future disclosure options
Item 4	High	High	High	Non-disclosure - understand the underlying data issues. Disclosure unlikely in medium term.

Figure 1 – Example of disclosure risk assessment grid

Conclusion – analysis, predictions, outcome, summation

Despite pressures, there may still be a place for a corporate Sustainability Report in a post-standardisation and post-verification world. The element that gets lost in the drive for transparency and verification is the 'telling of management's story', which is about the 'why' behind the sustainability strategy and how these fit within the organisations core principals. It is important this does not get lost in the rush to verify**.**

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Crowe UK named leading charity auditor for 14 consecutive years

Start the conversation

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About us

Crowe UK is a leading audit, tax, advisory and risk firm with a national presence to complement our international reach. We are an independent member of Crowe Global, one of the top 10 accounting networks in the world. With exceptional knowledge of the business environment, our professionals share one commitment, to deliver excellence.

We are trusted by thousands of clients for our specialist advice, our ability to make smart decisions and our readiness to provide lasting value. Our broad technical expertise and deep market knowledge means we are well placed to offer insight and pragmatic advice to businesses of all sizes, professional practices, social purpose and non profit organisations, pension funds and private clients.

We work with our clients to build something valuable, substantial and enduring. Our aim is to become trusted advisors to all the organisations and individuals with whom we work. Close working relationships are at the heart of our effective service delivery.

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