

FEEDBACK STATEMENT – ED 140 PROPOSED GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS UNDERTAKEN IN TERMS OF THE NATIONAL HOUSING PROGRAMME

<p>This Feedback Statement outlines the final feedback received on Guideline on <i>Accounting for Housing Arrangements Undertaken in Terms of the National Housing Programme (Housing Guideline)</i></p>	<p>Overview</p>	<p>This Feedback Statement outlines decisions taken by the Board prior to approving the Guideline on <i>Accounting for Arrangements Undertaken in Terms of the National Housing Programme</i> (Housing Guideline) as a final pronouncement and outlines the key principles in the Housing Guideline.</p>
	<p>Consultation process</p>	<p>The ASB undertook a public consultation, which included users of the financial statements, preparers, auditors, and other interested parties.</p>
	<p>Supporting material</p>	<p>The Board’s analysis of both the written and verbal comments received to ED 140, along with its responses thereto.</p> <p>The final Guideline on <i>Accounting for Arrangements Undertaken in Terms of the National Housing Programme</i>.</p> <p>These materials can be accessed on the ASB’s website.</p>
	<p>Next steps</p>	<p>The Housing Guideline will be applied through Directive 5 <i>Determining the GRAP Reporting Framework</i> on the later of 1 April 2019, or the effective date of the Standard of GRAP on <i>Accounting by Principals and Agents</i> (GRAP 109). Entities may, however, apply the principles in the Housing Guideline earlier.</p>



FEEDBACK STATEMENT

ED 140 PROPOSED GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS UNDERTAKEN IN TERMS OF THE NATIONAL HOUSING PROGRAMME

What we heard	
General support expressed for the proposed Guideline	Stakeholders generally supported the principles proposed in the Housing Guideline
Existence of a binding arrangement	<p>ED 140 required a municipality to assess whether it is a project manager or project developer in a housing arrangement based on the rights and obligations set out in a binding arrangement with the relevant provincial department of Human Settlements (relevant department). Respondents noted that a binding arrangement may not always be in place between a municipality and the relevant department. The Board concluded that it is highly unlikely that a municipality can participate in the national housing programme without a binding arrangement in place. In terms of the Housing Code, a municipality that wants to participate in the national housing programme must complete certain documents. These documents include an Implementation Protocol, a Service Level Agreement, a Memorandum of Understanding or a similar arrangement. The Board also noted that, in the absence of any specific arrangement, legislation or similar means will form the basis of the binding arrangement between the parties.</p> <p>GRAP 109 allows entities to consider past actions in the absence of a binding arrangement. The Board concluded that this principle should not be applied to housing arrangements undertaken in terms of the national housing programme as legislation makes it clear that binding arrangements must be in place between a municipality and the relevant department.</p>
Amendments to the terms and conditions of a binding arrangement	ED 140 did not address situations where changes are made to the initial terms and conditions of the binding arrangement between the municipality and the relevant department. The Board agreed to clarify the Housing Guideline to require that, when changes are made to the initial arrangement between the municipality and the relevant department, the municipality needs to re-assess the agreement using the principles in GRAP 109. The re-assessment is performed to determine whether the municipality continues to undertake the functions as a project manager or a project developer.

FEEDBACK STATEMENT

ED 140 PROPOSED GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS UNDERTAKEN IN TERMS OF THE NATIONAL HOUSING PROGRAMME

What we heard	
Amendments to the terms and conditions of a binding arrangement	The Housing Guideline was also amended to clarify that, even though the binding arrangement may use the term “project manager” or “project developer” for specific parties, an assessment of the municipality’s roles and responsibilities should be undertaken for each housing arrangement.
Costs incurred by the municipality for which it will not be reimbursed by the relevant department	<p>Respondents noted that, in some instances, not all the costs incurred by the municipality in a housing arrangement will be reimbursed by the relevant department.</p> <p>The Board agreed that this should be clarified in the Housing Guideline by including additional wording in:</p> <ul style="list-style-type: none"> (a) Chapter 4 <i>Accounting by Municipalities Appointed as Project Manager</i> to explain that, when the municipality acts a project manager, it should only recognise revenue and expenses that it receives or incurs in return for executing the transactions on behalf of the relevant department. This includes expenses incurred by the municipality for which it will not be reimbursed by the relevant department. (b) Chapter 5 <i>Accounting by Municipalities Appointed as Project Developer</i> to explain that a municipality needs to assess whether expenses incurred, for which it will not be reimbursed by the relevant department, comprise contract costs that should be accounted for in terms of GRAP 11 <i>Construction Contracts</i>.
Additional guidance required to account for land and infrastructure in a housing arrangement	Respondents supported the guidance on the accounting treatment of land and infrastructure, but requested further clarification in some areas. The Board agreed to the inclusion of the following additional guidance to address these requests.

FEEDBACK STATEMENT

ED 140 PROPOSED GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS UNDERTAKEN IN TERMS OF THE NATIONAL HOUSING PROGRAMME

What we heard

Additional guidance required to account for land and infrastructure in a housing arrangement

Accounting for portions of vacant land

ED 140 explained that, if the municipality at the time of entering into an arrangement with the relevant department concludes that the municipality controls portions of vacant land, the municipality should account for that land as its asset in terms of the applicable Standard of GRAP.

Additional clarification has been included in the Housing Guideline to explain the following:

- (a) the portion of land retained by the municipality should be accounted for based on the intended use of the land when an arrangement is entered into with the relevant department; and
- (b) if the land is already recognised as an asset by the municipality, the municipality should derecognise the portion of land that it does not control after entering into an arrangement with the relevant department. This assessment is made by applying the principles in the IGRAP 18 *Recognition and Derecognition of Land*.

Accounting for infrastructure assets

ED 140 required that the municipality should classify the construction of infrastructure assets, that are developed as part of the township development, as assets under construction. As GRAP 17 requires that buildings and other structures should be accounted for separately, additional guidance has been included that requires a municipality to assess whether the land on which the infrastructure is constructed, should be accounted for as its asset after considering the principles for vacant land.

FEEDBACK STATEMENT

ED 140 PROPOSED GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS UNDERTAKEN IN TERMS OF THE NATIONAL HOUSING PROGRAMME

Summary of key principles

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- The Housing Guideline illustrates the accounting of revenue, expenses, assets and liabilities by municipalities that participate in the national housing programme. The Housing Guideline is applied by municipalities that have been granted a level one or a level two accreditation in terms of the National Housing Code.
- Accounting considerations for level three accredited municipalities are not addressed in the Housing Guideline as such accreditation has not yet been granted to any entity.
- The Housing Guideline can also be applied by non-accredited municipalities and, by analogy, any other entities that participate in the national housing programme.
- The Accreditation Framework outlines the responsibility delegated to level one and level two accredited municipalities to execute certain functions. If a municipality is accredited as level two, it also has the responsibility of a level one accredited municipality.
- The municipality's roles and responsibilities in undertaking certain functions in the housing programme are set out in a binding arrangement. A binding arrangement between a municipality and the relevant department is evidenced through an Implementation Protocol, a Service Level Agreement, a Memorandum of Understanding or a similar arrangement. In the absence of any specific arrangement, legislation or similar means will form the basis of the binding arrangement between the parties.
- As municipalities undertake certain transactions with third parties, i.e. the beneficiaries of the national housing programme and contractors and/or other service providers, the Housing Guideline discusses whether a principal-agent arrangement exists as defined in GRAP 109. Based on this assessment, the Guideline provides guidance to municipalities on how the resources received from, or incurred on behalf of, the relevant department should be recognised.

FEEDBACK STATEMENT

ED 140 PROPOSED GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS UNDERTAKEN IN TERMS OF THE NATIONAL HOUSING PROGRAMME

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- Municipalities undertake certain transactions with the beneficiaries in an arrangement. These transactions meet the definition of a principal-agent arrangement as defined in GRAP 109 as the transactions with the beneficiaries, for example, the marketing of the stands to potential beneficiaries, receiving application forms from potential beneficiaries, and assisting with the handover of the completed houses, are performed on behalf of the relevant department.
- In terms of the accreditation granted to municipalities in the Accreditation Framework, the municipality can either be the project manager or the project developer in an arrangement.
 - (a) Where the municipality is the project manager, the definition of a principal-agent arrangement is met and the arrangement is in the scope of GRAP 109. This is because the municipality and the relevant department have entered into an arrangement where the municipality undertakes certain transactions with third parties, i.e. contractors and/or other service providers, on behalf of the department. In terms of the arrangement between the municipality and the relevant department, the department remains responsible to fulfil the rights and obligations with contractors and other service providers.
 - (b) Where the municipality is the project developer, the municipality is responsible for the construction of the houses, and any arrangement entered into with contractors and/or other service providers is in its own name. Where the municipality is appointed as project developer, the definition of a principal-agent arrangement is not met, and the arrangement is not in the scope of GRAP 109.
- Even though the binding arrangement may use the term “project manager” or “project developer” for specific parties to the arrangement, the municipality should assess its roles and responsibilities to determine whether it is undertaking the transaction in the housing arrangement as a project developer or project manager.

FEEDBACK STATEMENT

ED 140 PROPOSED GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS UNDERTAKEN IN TERMS OF THE NATIONAL HOUSING PROGRAMME

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Municipality appointed as project manager acts as agent in the arrangement

- As an agent, the municipality should only recognise revenue and expenses that it receives or incurs in return for executing the transactions on behalf of the relevant department. This includes expenses incurred by the municipality which will not be reimbursed by the relevant department.
- As the municipality is an agent of the relevant department, it does not recognise the houses constructed as assets in its financial statements. This applies both during and after construction.
- The municipality applies the disclosure requirements in GRAP 109 and other relevant Standards of GRAP.
- Any accreditation fee, commission, administration or transaction fee that the municipality receives or that is receivable from the relevant department, should be accounted for in terms of GRAP 9 *Revenue from Exchange Transactions*.

Municipality appointed as project developer assumes responsibility for the construction of the houses

- Where a municipality is a project developer, it should recognise the grant as contract revenue in terms of GRAP 11 *Construction Contracts*. Contract revenue should be recognised by reference to the stage of completion of the contract activity at the reporting date.
- The municipality also recognises contract costs as expenses when the outcome of a construction contract can be estimated reliably by reference to the stage of completion of the contract activity at the reporting date. Contract costs are the costs attributable to a contract for the period from the date of securing the contract to the final completion of the contract.
- The project developer recognises the gross amount due from customers for contract work as an asset, and the gross amount due to customers as a liability.

FEEDBACK STATEMENT

ED 140 PROPOSED GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS UNDERTAKEN IN TERMS OF THE NATIONAL HOUSING PROGRAMME

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Municipality appointed as project developer assumes responsibility for the construction of the houses

- The municipality applies the disclosure requirements in GRAP 11.
- Any accreditation fee, commission, administration or transaction fee that the municipality receives or that is receivable from the relevant department, should be accounted for in terms of GRAP 9.
- If the accreditation fee, commission, administration or transaction fee received or receivable relates to the rendering of services which are directly related to the construction of the houses, GRAP 11 can be applied to account for the revenue.

Accounting for land

- Land owned by a municipality is classified in its financial statements based on its use of that land. Existing land should be reclassified as inventory when there is a clear intention that the municipality will use the land for a housing development.
- In terms of the principles in IGRAP 18, the municipality will lose control of land when an arrangement is entered into with the relevant department.
- Where the municipality receives an Urban Settlement Development Grant (USDG) to fund the acquisition of land and/or infrastructure, the municipality needs to distinguish the portion of the grant that is expected to be used for the acquisition of the land, and the portion that relates to the acquisition or development of infrastructure. The USDG should be recognised as a liability until the conditions attached to the grant are met. The liability should then be reduced and non-exchange revenue should be recognised in the statement of financial performance.

FEEDBACK STATEMENT

ED 140 PROPOSED GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS UNDERTAKEN IN TERMS OF THE NATIONAL HOUSING PROGRAMME

Summary of key principles

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Accounting for land

- When land is transferred or donated to a municipality for the purpose of housing development, the municipality should recognise an asset arising from a non-exchange transaction when it gains control of the asset, and when the recognition criteria are met. The municipality will then recognise the land as inventory. In determining whether a liability should also be recognised, the municipality considers the terms and conditions of the agreement entered into with the party that has donated or transferred the land.
- Land acquired using the USDG or through a transfer or donation, is only recognised as an asset if the municipality concludes that, at the time of acquiring the land, it has not entered into an arrangement with the relevant department.
- If an arrangement has been entered into prior to the acquisition of the land, the municipality does not control the land when it is acquired or received through a transfer or donation. The acquisition, transfer or donation of the land is expensed in the statement of financial performance.

Infrastructure, vacant land and other assets

- The municipality accounts for infrastructure as property, plant and equipment. During the construction of the infrastructure assets that are controlled by the municipality, they are classified as assets under construction.
- Where the municipality receives an USDG to fund the infrastructure, the USDG should be recognised as a liability until the conditions attached to the grant are met. The liability should be reduced when the municipality acquires or develops the infrastructure.

FEEDBACK STATEMENT

ED 140 PROPOSED GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS UNDERTAKEN IN TERMS OF THE NATIONAL HOUSING PROGRAMME

Summary of key principles

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Infrastructure, vacant land and other assets

- The extent of control of vacant portions of land that are part of the township development is determined when an arrangement is entered into with the relevant department by applying the control criteria in IGRAP 18. In determining the extent of the land the municipality controls, the municipality may use township planning guidelines and frameworks, policies or similar documents.
- If the municipality, at the time of entering into an arrangement with the relevant department concludes that it controls portions of vacant land, it should account for that land as its assets in terms of the applicable Standard of GRAP based on the intended use of the land when the arrangement is entered into. If the land is already recognised as an asset by the municipality, the municipality should only derecognise the portion that it does not control after entering into an arrangement with the relevant department. Any revisions to the values of the land initially recognised should be accounted for as a change in accounting estimate in accordance with the Standard of GRAP on *Changes in Accounting Policies, Estimates and Errors* (GRAP 3).
- Control of other assets, such as municipal halls, clinics and fire stations, needs to be assessed by applying the applicable Standard of GRAP. Control of the land on which these assets are built, needs to be assessed using the control criteria in IGRAP 18.

Application of the Housing Guideline to existing arrangements

How should the Housing Guideline be applied to existing housing arrangements?

If a municipality does not account for its housing arrangements, or land, infrastructure, vacant land and other assets in the manner outlined in the Housing Guideline, it should apply the principles in GRAP 3. GRAP 3 prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and errors.

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ED 140 PROPOSED GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS UNDERTAKEN IN TERMS OF THE NATIONAL HOUSING PROGRAMME

Effective date

Inclusion of the Housing Guideline in the mandatory section of the GRAP Reporting Framework

The Board agreed that the Housing Guideline will be made mandatory through the GRAP Reporting Framework on the later of:

- (a) 1 April 2019 when IGRAP 18 is effective; or
- (b) the effective date of GRAP 109.

Entities may consider the principles in the Guideline earlier in developing their accounting policies for housing arrangements.

How to access information

Access information on the ASB and its work programme online

Visit our website on www.asb.co.za