

WORKING DRAFT

Proposed amendments to the Housing SORP

Housing SORP public consultation

Invitation to comment

The SORP-making body invites stakeholders to provide responses to the questions set out on page 28 and to share their views on our proposed amendments to the Housing SORP during the 12-week consultation period, closing on **12 January 2026 at 11:45pm**. Please send comments via the [form provided](#) or via email to eam@housing.org.uk.

The Secretariat to the SORP Working Party (service provided by the National Housing Federation) will run the consultation process. The Secretariat will engage with the wider National Housing Federation, Community Housing Cymru, the Northern Ireland Federation of Housing Associations and the Scottish Federation of Housing Associations to promote this consultation to registered social housing providers and other interested parties.

The National Housing Federation (NHF) in its role as Secretariat will collate and, with the help of the technical secretariat, either accept or reject recommended changes. The Housing SORP-making body will adopt a transparent process and, accordingly, consultation responses shall be made publicly available (via the NHF website) unless confidentiality is requested by the respondent. The SORP-making body will aim to publish responses as soon as possible and within 30 days of receipt.

Final guidance will subsequently be published by the Housing SORP-making body in early 2026.

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Implications of the revised financial reporting standards

In March 2024, the Financial Reporting Council (FRC) issued comprehensive improvements to financial reporting standards applicable in the UK and Republic of Ireland resulting from the second periodic review of FRS 102 and other Financial Reporting Standards. The revisions include a new model of revenue recognition in FRS 102 and FRS 105; a new model of lease accounting in FRS 102; and various other incremental improvements and clarifications.

As a result of the amendments, FRS 102 reflects up-to-date IFRS-based solutions, providing high-quality and clear financial reporting to users. This will include more transparent reporting of lease obligations, as well as a clear five-step model for determining the recognition of revenue from all contracts with customers. The amendments have been designed to be proportionate to the size and complexity of the entities applying the standards.

The effective date of the amendments to FRS 102 is 1 January 2026.

Amendments to the Housing SORP, which provides guidance in the application of FRS 102 for registered providers of social housing, are proposed for consultation. Most of the proposed changes result from the amendments to FRS 102 from the second periodic review. However, the SORP-making body has also taken this time to consider new and emerging sector specific matters and incorporated the accounting and reporting implications into the Housing SORP.

The proposed effective date of the amendments set out in the Housing SORP is 1 January 2026.

SORP working party process for developing the SORP

The development of this SORP has been informed by the SORP Working Party which includes representatives from housing regulators, accounting practitioners, housing sector finance professionals, lenders and professional bodies. The Working Party met regularly during the review period to discuss and agree proposed changes and updates to the SORP. Crowe U.K. LLP was engaged as technical advisor to the SORP Working Party to advise on technical content and author the publication. The FRC have observer status on the SORP Working Party.

In accordance with the FRC's Policy on Developing Statements of Recommended Practice (SORPs) the FRC carried out a review of the proposed draft SORP guidance focusing on those aspects relevant to the financial statements but also including aspects relevant to the FRC's broader responsibilities where appropriate.

Key matters for consideration and basis of conclusion

The working party established the following key considerations:

1. Changes arising to FRS 102 from the Periodic Review 2024 amendments, the most significant of which were considered to be:
 - Revenue recognition.
 - Lease accounting.
2. Reflecting guidance written by the SORP Working Party in January 2023¹ and consulted upon previously in relation to accounting for repairs responsibilities of social landlords under new Shared ownership model
3. Reflecting guidance written by the SORP Working Party in January 2023² and consulted upon previously in relation to accounting for Right to Shared ownership requirements
4. Other amendments to provide greater clarity in accounting treatment and improve consistency in the sector. Topical accounting issues for social landlords arising from building safety requirements, sustainability and decarbonisation have been considered during this review.

¹ <https://www.housing.org.uk/news-and-blogs/news/shared-ownership-model-and-right-to-shared-ownership-guidance-consultation/>

² <https://www.housing.org.uk/news-and-blogs/news/shared-ownership-model-and-right-to-shared-ownership-guidance-consultation/>

Each key area has been analysed below and the conclusion and basis for that conclusion documented in each section.

1. Changes arising to FRS 102 from the Periodic Review 2024 amendments

1.1. Revenue recognition

Section 23 *Revenue from Contracts with Customers* in the updated FRS 102 adopts a five-step revenue recognition model based on IFRS 15 *Revenue from Contracts with Customers*. For reference, the five-step model is as follows:

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

Registered providers have a wide range of revenue streams, and therefore application of the model across each is required in most cases.

Whilst not an exhaustive list the principal revenue streams to the housing sector that have been considered specifically for this review are:

- Service charge income, including sinking funds and other similar funds
- Property sales
- Grant income
- Rental income (considered within the leases section of this basis of conclusion)

Each of the income streams noted above are in scope of different sections of FRS 102, depending on the nature of the transaction. We have considered each of the above and the relevant requirements of FRS 102 separately below.

Other income streams, such as care fee income, are not specific to social landlords and occur frequently in the corporate and non-profit sectors, and therefore it is not considered necessary to specifically review and provide guidance for social landlords. For these income streams, the five-step model noted above is applied.

1.1.1. Service charge income

Rental agreements with tenants also include provision for service charges. Paragraph 20.36 of FRS 102 states:

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract applying paragraphs 23.65 to 23.77.

The provision of services attached to a lease are considered to be non-lease components as set out under Section 20 *Leases* of FRS 102 as the contract for services does not convey the right to control the use of an identified asset. Accordingly, service charges should be recognised in line with Section 23 *Revenue from Contracts with Customers* of FRS 102. The SORP working party acknowledged that in the case of some types of rental, such as affordable rent, it may be more complex to apportion the consideration between rent and service charges due to the customer paying a single price under the agreement.

Whilst accepting that charging for services is defined by the individual lease and can have differing specific terms, for the purposes of this review, service charges were assessed to broadly fall into two categories:

- Fixed – the service charge is fixed at the start of the year, based on an estimate of the annual service costs. Any under/overcharge is not adjusted (to be charged or recovered from the tenant) at the year end.
- Variable – the charge can vary and is set at the start of the year, based on an estimate of the annual service costs. If the cost of the service increases or decreases, then any under or overpayment would be paid / credited to the tenant account in the subsequent period.

These service charges are an amount that tenants pay to cover the costs of communal and shared services (such as buildings insurance, security, communal cleaning).

In the table below the SORP Working Party sets out the considerations for each of the five steps in the model for fixed and variable service charges, based on the standard contracts discussed under 'Rental income' above.

	<u>Variable</u>	<u>Fixed</u>
Step 1 – Identify the contract(s) with a customer	There will be a tenancy agreement or lease in place which can be considered a contract with a customer.	There will be a tenancy agreement or lease in place which can be considered a contract with a customer.
Step 2 – Identify the performance obligations in the contract	The tenancy agreement or lease would identify the services to be provided by the social landlord. The tenancy agreement or lease would identify the services / bundle of services to be provided by the social landlord. Each service could be a separate performance obligation. However, where a service is not distinct, for example if it is not separate from other services promised in the contract, it is combined with other services into a bundle of distinct services in accordance with FRS 102 23.25. In some cases, this will result in all the services being accounted for as a single performance obligation.	
Step 3 – Determine the transaction price	Amount determined at the beginning of each year based on estimated costs of delivering the service at break even, reduced by the amounts not chargeable to the tenants. Any surplus or deficit based on actual costs incurred is adjusted for at the reporting date (as additional charges or a refund as appropriate).	Fixed amount stipulated by the tenancy agreement and updated in annual increase letters.
Step 4 – Allocate the transaction price to the performance obligations in the contract	The price is estimated at the outset based on budgeted costs, and therefore the price can be allocated between the contract promises using this basis.	The price is fixed at the commencement of the tenancy agreement (and updated in annual increase letters) and can be allocated to the services / bundle of services promised in the contract.
	Paragraphs 23.67 to 23.71 of FRS 102 requires the transaction price to be allocated to the distinct goods or services underlying the performance conditions based on stand-alone selling prices, being the price at which an entity would sell a good or service promised in a contract separately to a customer, the best evidence of which is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers. In the case of service charges, there is not a directly observable price, as the services are not sold separately. Paragraph 23.69 therefore states <i>'If a stand-alone selling price is not directly observable, an entity shall estimate it. When estimating a stand-alone selling price, an entity shall take into account all information that is reasonably available to the entity, including market conditions, entity-specific factors and information about the customer or class of customer. An entity shall apply estimation methods consistently in similar circumstances.'</i> This is expanded on in paragraph 23.70(b) which states that a suitable estimation method may include an expected cost plus a	

	margin approach. Given that this is how service charge budgets are set by social landlords, the SORP working party therefore considers the estimated standalone price to be equal to the estimated service charge cost (plus any management and other charges) for the period.	
Step 5 – Recognise revenue when (or as) the entity satisfies a performance obligation.	Performance over time (FRS 102 23.81(a) – the customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs (e.g., routine or recurring services such as a cleaning service).	Performance over time (FRS 102 23.81(a) – the customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs (e.g., routine or recurring services such as a cleaning service).

The SORP Working Party recognised the clear difference between fixed and variable service charges from its consideration of the FRS 102 amendments and as such included additional guidance in the SORP regarding accounting treatment for this type of income. This has been provided in paragraphs 10.9 to 10.14.

The accounting treatment for variable service charges may result in changes to accounting treatment for some social landlords but the guidance provided is aimed at achieving consistency in the sector and compliance with FRS 102. Following the amendments;

- Where a surplus arises (i.e. service charge income is greater than actual expenditure) –
 - Where a refund of the surplus is made to the customer or credited to their service charge account, these amounts should be recognised as a liability at the reporting date; or
 - Where no refund is being made to the customer, the surplus is taken to reserves in the period to which the service charges relate.
- Where a deficit arises (i.e. service charge income is less than actual expenditure) an additional (balancing) charge is made to tenants in the subsequent year(s). This would be recognised as a contract asset (i.e. accrued income) in the period to which the service charges relate.

In arriving at the accounting treatment for variable service charges above, the SORP working party considered the requirements of paragraphs 23.46 and 23.47 of FRS 102 and concluded that it is highly probable that a social landlord would be entitled to the cumulative amount of revenue recognised when the uncertainty associated with the variable consideration is subsequently resolved due to the legal recourse to recovery through the lease.

At each reporting period the service charges receivable should be re-estimated based on the actual expenditure incurred. Any under/over recognition of income should then be adjusted (as deferred or accrued income) as per FRS 102 paragraph 23.76.

The SORP Working Party were cognisant of the fact that service charge accounts are often drawn up after the financial statements are prepared for a reporting period, and therefore the revised amount should be based on a revised estimate at the time of preparing the financial statements in accordance with the concepts and pervasive principles of FRS 102.

1.1.2.Sinking funds (and other similar funds)

Sinking funds are considered a payment method for settling the transaction price of a service delivered by the social landlord. This is not a distinct service itself. As such sinking funds should be treated as a payment in advance and only recognised as revenue when the performance obligation is satisfied.

For example, where a sinking fund is maintained to replace windows in a development, the revenue would be recognised at the point at which the windows had been installed (being the point at which the performance obligation is satisfied) and would be carried as deferred income on the balance sheet until that time.

Due to the amendments in FRS 102 the SORP Working Party considered it appropriate to clarify this treatment in the SORP paragraphs 10.19 to 10.21.

1.1.3.Property sales

Social landlords often develop and sell properties in order to generate returns to reinvest into social housing. These sales are generally split between outright sales and shared ownership sales.

Outright sales

The application of the 5-step model to property sales has been assessed as relatively straightforward by the SORP working party as noted below:

Step 1 – Identify the contract(s) with a customer	There will be a contract in place between the purchaser and the social landlord
Step 2 – Identify the promises in the contract	The purchaser will obtain the leasehold/freehold of the property
Step 3 – Determine the transaction price	The price will be clearly identified within the contract
Step 4 – Allocate the transaction price to the promises in the contract	Typically, only a single promise in the contract (e.g. the transfer of the property asset)
Step 5 – Recognise revenue when (or as) the entity satisfies a promise.	Performance satisfied at a point in time i.e., at legal completion

The SORP working party did consider whether the sale of property assets could be considered as a lease for FRS 102 purposes due to the fact that the sale can be a leasehold rather than freehold sale (and often with a term greater than 99 years being substantially all of the useful economic life of the property asset).

As noted above, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In the case of the sale of a leasehold property we have set out our considerations below:

Question	Considerations for social landlords
Is there a contract?	Yes, an agreement for the sale of the leasehold between the social landlord (as landlord) and the customer
Is there an identified asset?	Yes, the agreement specifies the property and therefore identifies the asset
Will the customer have the right (throughout the period of use) to obtain substantially all of the economic benefits and/or service potential from use of the asset?	Yes, the customer uses the property throughout the leasehold period and therefore consumes the economic benefits from use.
Does the customer have the right to direct the use of the identified asset throughout the period of use?	Yes, the contract allows the customer to operate the asset as a tenant and within the scope of the contract without the social landlord having the right to change the requirements.

The above would indicate that the sale of the leasehold property therefore meets the requirements of a lease. The SORP working party then considered whether the lease would be classified as a finance lease (as set out in paragraphs 20.87 to 20.89 of FRS 102).

Question	Considerations for social landlords	Criteria met?
Does the lease transfer ownership of the underlying asset to the lessee by the end of the lease term?	No, at the end of the leasehold period ownership reverts to the social landlord.	No
Does the lessee have the option to purchase the underlying asset at a price that is expected to be	It is uncommon for leasehold sales to include such an option.	No

sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised?		
Is the lease term for the major part of the economic life of the underlying asset even if title is not transferred?	This will vary by agreement, but leaseholds are typically for 99 years or more, therefore would likely meet this criteria.	Yes
At the inception date, does the present value of the lease payments amount to at least substantially all of the fair value of the underlying asset?	There is typically only one payment associated with the sale, which will be based on market value at the time of the sale.	Yes
Is the underlying asset of such a specialised nature that only the lessee can use it without major modifications?	The underlying assets are housing properties, and therefore not of a specialised nature.	No

Based on the above, the sale of a leasehold property on balance could be considered a finance lease. The accounting treatment for granting of a finance lease would result in the social landlord derecognising the asset and recognising a receivable (being the net investment in the lease), with the resulting gain (or loss) recognised in the Statement of Comprehensive Income.

Where all the consideration is received up front, after the sale is completed the net investment in the lease is likely to be nil unless the lease has an unguaranteed residual value (as defined in FRS 102) or any ground rents payable are significant.

The accounting treatment should the transaction not be considered the granting of a lease and recognised as a sale of a property as goods would not be dissimilar. Accordingly, the SORP working party concluded that the Housing SORP does not need to separately address leasehold property sales.

Non-refundable deposits

There may be instances where the customer pays a non-refundable deposit, which is covered by paragraphs 23.29 to 23.30 of FRS 102 which states:

23.29 In some contracts, an entity charges a customer a non-refundable upfront fee at or near contract inception. Examples include joining fees in health club membership contracts, set-up fees in some service contracts and initial fees in some supply contracts.

23.30 In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfil the contract, that activity does not result in the transfer of a promised good or service to the customer. Instead, the upfront fee is an advance payment for future goods or services and, therefore, would be recognised as revenue when those future goods or services are provided. The revenue recognition period would extend beyond the initial contractual period if the entity grants the customer a material right (see paragraphs 23.31 to 23.35). If a non-refundable upfront fee relates to the transfer of a good or service, an entity shall evaluate whether to account for the good or service as a separate performance obligation.

As the performance condition of the contract has not been fulfilled, any such deposit received should be treated as deferred income.

In addition, some social landlords may allow customers to pay a reservation fee to secure a property (i.e. take it off the market), which in most cases is refundable and therefore would be treated as deferred revenue. If the reservation fee is nonrefundable, the above principles would also apply as it is linked to the purchase of the property.

Guidance on this basis has been provided in paragraphs 10.21 to 10.22 of the SORP.

1.1.4. Grant income

Grant income meets the definition within FRS 102 of a non-exchange transaction and is therefore outside the scope of Section 23 *Revenue from Contracts with Customers*, and the recognition of such income falls under Section 24 *Government Grants* or Section 34 *Specialised Activities* of FRS 102.

Whilst there have been several wording changes in the updated standard, these are not considered to impact on the extant accounting treatment of such income, and we have therefore proposed no changes to Chapter 11 *Grants* in the Housing SORP.

The SORP working party considered there to be no further matters in respect of revenues that require specific consideration for the application of FRS 102 for social landlords.

1.2. Lease accounting

The fundamental change within FRS 102 is the introduction of the capitalisation of right-to-use assets on the balance sheet in certain situations.

The SORP working party identified the following areas as those requiring specific consideration for social landlords:

- Identifying leases and classifying them as operating or finance leases [lessors]
- Presentation of right-of-use assets [lessees]
- Agreements at below market rent [lessees]
- Rental income [lessors]
- Non-lease components (service charges) [lessors]
- Disclosures – maturity analysis [lessors]
- Accounting for Shared Ownership [lessors]

Below we have taken each in turn to document the basis of conclusion.

1.2.1. Identifying leases and classifying them as operating or finance leases [lessors]

The amendments to FRS 102 have brought about significant changes to the way lessees account for leases. For lessors, the core distinction between finance leases and operating leases remains a requirement and they must continue to assess and identify each lease arrangement in accordance with the criteria set out in FRS 102.

Whilst appreciating that in the preparation of financial statements to comply with FRS 102 the social landlord should consider the accounting requirements on a contract by contract basis, the SORP Working Party deemed it appropriate to provide guidance relevant to the standard issue agreements with customers seen in the sector (e.g. the model contracts issued by the regulators) which meet the criteria for a lease contract under Section 20 *Leases* of FRS 102, as detailed in the table below. Shared ownership arrangements are considered separately under 'Accounting for Shared Ownership [lessors]' below.

Question	Considerations for social landlords
Is there a contract?	Yes, an agreement for the tenancy exists between the social landlord (as landlord) and the tenant (as customer)
Is there an identified asset?	Yes, the agreement specifies the property which the tenant will occupy and therefore identifies the asset
Will the customer have the right (throughout the period of use) to obtain substantially all of the economic benefits and/or service potential from use of the asset?	Yes, the customer (tenant) uses the property throughout the contract period and therefore consumes the economic benefits from use.
Does the customer have the right to direct the use of the identified asset throughout the period of use?	Yes, the contract allows the customer (tenant) to operate the asset as a tenant and within the scope of the tenancy without the social landlord having the right to change the requirements.

Social landlords have numerous leasing arrangements within their portfolio as a lessor, such as social rents, affordable rents and intermediate rents. Tenancies may also vary significantly in respect of the length of the lease, including short term, rolling and lifetime tenancies.

Paragraph 20.88 of FRS 102 presents a number of situations, individually or in combination, that would normally lead to a lease being identified as a finance lease rather than an operating lease, which we have considered for social landlords below:

Example situation	Consideration for social landlords
the lease transfers ownership of the underlying asset to the lessee by the end of the lease term	Leases do not generally transfer ownership by the end of the lease term.
the lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised	Most leases do not provide the lessee with the option to purchase the asset. There is the option to acquire further interest in Shared Ownership properties (known as staircasing), however any such purchase is based on a current valuation. Some tenants may be eligible for the Right to Buy or Right to Acquire schemes, in which case they would be able to purchase the property at a discounted price. A Right to Shared Ownership scheme also exists, allowing some tenants to purchase a proportion of the interest in the property under the Shared Ownership Scheme. Under Right to Acquire the discount is fixed based on the location of the property, and under Right to Buy the discount is based on a percentage but is capped based on the location of the property. At the inception date it would not be reasonably certain that the tenant would avail themselves of these schemes.
the lease term is for the major part of the economic life of the underlying asset even if title is not transferred	The majority of leases are assured shorthold tenancies (typically between 1 and 10 years), and therefore are not for the major part of the economic life of the asset. In some instances, tenants may have a lifetime tenancy, in which case subject to compliance with the tenancy agreement, could be for the major part of the economic life of the asset. There is significant uncertainty as to whether a lifetime tenancy would be for the major part of the economic life of the asset.
at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset	Given the typical length of the lease (as noted above), it is unlikely that the present value of the lease payments would amount to substantially all of the fair value of the asset.
the underlying asset is of such a specialised nature that only the lessee can use it without major modifications	The underlying assets are housing properties, and therefore not of a specialised nature.

We therefore propose that standard rental agreements for tenanted social housing properties, such as general needs properties to be considered as operating leases as defined in Section 20 *Leases* of FRS 102.

We note that this approach is consistent with the approach adopted in the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25, which states in Section 4.2.1.5:

The Code interprets IFRS 16 so that housing tenancies reported within the Housing Revenue Account³ (HRA) are deemed to be operating leases that shall be accounted for under this section of the Code.

Some social landlords also own properties but allow other charitable or social landlords to use them for particular purposes. These arrangements will generally be operating leases, based on similar factors as noted above, although additional consideration may be required by social landlords in respect of the length of the lease and any specialised nature of the properties. This will require consideration on a case-by-case basis by the social landlord.

Subleases

An additional complication arises where the asset is being subleased by the social landlord. Where the rental agreement is of a similar period to the headlease held by the social landlord, this may be a finance lease. This will require consideration by social landlords on a case by case basis.

As such the wording of the SORP has been amended to state:

8.18 In most circumstances this SORP considers that standard rental agreements for tenanted social housing properties, such as general needs properties, and most relationships between social landlords who own properties but allow other charitable or social landlords to use them for particular purposes, to be operating leases as defined in paragraphs 20.86 to 20.92 of FRS 102. In rare circumstances, for example where a landlord is a lessor and issues a sub-lease with a period close to that of the head lease it may be a finance lease and the social landlord should consider the classification by reference to the right-of-use asset in accordance with paragraph 20.92(b) of FRS 102.

1.2.2.Accounting policy choices [lessees]

Presentation of right-of-use assets

Paragraph 20.74 of FRS 102 requires right-of-use assets be either presented or disclosed separately from other assets. The SORP proposes that all social landlords include right-of-use assets in the same line item of the financial statements as that within which the corresponding underlying assets would be presented if they were owned, with additional disclosure in the notes to the financial statements as required by Section 20 Leases of FRS 102.

As this requirement is restricting a choice within FRS 102, the SORP working party has considered the cost / benefit implications of this restriction. The key benefit will be consistency and comparability across the social housing sector, and minimal costs are expected to be incurred by social landlords to comply with this requirement given this is a presentation requirement and all underlying information will have to be prepared irrespective of this choice.

Short term lease exemption

Paragraph 20.5 of FRS 102 provides recognition exceptions for short term leases. Proposed paragraph 8.7 of the SORP requires that for any leases for which the social landlord has determined the lease term to be 12 months or less this recognition exemption must be taken when it is available. As this is a restriction of a choice under FRS 102, the SORP working group have considered the cost / benefit implications of this restriction. As there would be no requirement to recognise a right-of-use asset and associated lease liability, there would be a cost saving to preparers as they would not be required to perform the calculations and assessments required. The key benefit would be greater consistency and comparability across the housing sector.

1.2.3.Agreements at less than market rent [lessees]

A lease is defined under Section 20 Leases of FRS 102 as a contract which conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

We are aware within the sector that there will be occasions where a social landlord enters into an agreement as lessee to obtain the right to use an asset at rent either below market or nominal value (sometimes referred to as peppercorn rent).

³ The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local authority housing, and is akin to the Statement of Comprehensive Income

Paragraph 20.35 of FRS 102 states 'If the contractual payments are so low that they are not substantive (e.g. peppercorn or nominal consideration), the arrangement may not meet the definition of a lease.'

Paragraphs 20.19 to 20.25 of FRS 102 set out certain factors which should be taken into account when assessing whether a contract that has substantive consideration is, or contains a lease:

- that there is a right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- that there is a right to direct the use of an identified asset.

Most such agreements within social landlords will relate to a housing property. The properties would be used by the social landlord to further its social purpose (primarily the provision of accommodation) for which it will receive payment/consideration, thereby obtaining substantially all of the economic benefits from use of the asset. Consideration will of course be required for any such agreements relating to other assets beyond housing properties.

We have drafted additional guidance within the SORP to assist social landlords in determining whether an agreement at below market rent is a lease and should therefore be recognised as a right of use asset. See paragraphs 8.8 to 8.9 of the SORP.

FRS 102 paragraph 20.35 states the following:

A lessor may provide a lessee with incoming resources from a government grant or, for a public benefit entity, a non-exchange transaction if, for example, the lease payments are significantly below market rents. At the commencement date, or when the lease is modified as set out in paragraphs 20.71 to 20.73, a lessee shall use the information readily available to it to determine whether it is in receipt of such incoming resources. If so, the lessee shall recognise those incoming resources as part of the cost of the right-of-use asset. The incoming resources shall be recognised and measured in accordance with, as applicable, Section 24 Government Grants or (for a public benefit entity only) paragraphs PBE34.64 to PBE34.74 Incoming Resources from Non-Exchange Transactions of Section 34 Specialised Activities.

Having considered the interaction between Section 20 Leases and Section 34 Specialised Activities (specifically paragraphs PBE34.64 to PBE34.74 on income from non-exchange transactions, the Housing SORP working party considered it appropriate for the SORP to provide more guidance in this area to assist social landlords in preparing financial statements.

Paragraphs 8.10 to 8.16 of the SORP provide additional guidance on the accounting treatment where any such arrangements are leases at less than market rent.

Paragraph 20.5 of FRS 102 provides recognition exceptions for leases of low value underlying assets. Proposed paragraph 8.15 of the SORP requires that for any leases under which the social landlord is provided with incoming resources from a government grant or a non-exchange transaction (see paragraph 20.35 of FRS 102), this recognition exemption must be taken when it is available. As this is a restriction of a choice under FRS 102, the SORP working group have considered the cost / benefit implications of this restriction. As there would be no requirement to recognise a right-of-use asset and associated lease liability, there would be a cost saving to preparers as they would not be required to perform the calculations and assessments required. The key benefit would be greater consistency and comparability across the housing sector.

1.2.4.Rental income [lessors]

Under Section 20 Leases of FRS 102, lease payments are recognised on a straight-line basis, unless either:

- another systematic basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished; or
- the lease payments are structured to increase in line with expected general inflation (based on published indices or statistics) to compensate for the lessor's expected inflationary cost increases. If the lease payments vary according to factors other than general inflation, then this condition is not met.

For social housing, lease payments are generally revised each year based on the Rent Standard, which is reviewed and set by the Government periodically (currently set at CPI +1%) but we have had rent policy in recent history that has been capped or has been a decrease against inflation.

It is therefore considered that the latter condition is not met (due to lease payments varying according to factors other than general inflation), and therefore social landlords should recognise lease income on either a

straight line basis or another systematic basis. The SORP working party considered that, given the anticipated regular changes to the Rent Standard, which typically apply for a 12-month period, that an appropriate basis would be to recognise the lease payments on a straight line basis over each rent period.

For some social landlords, rent periods are weekly and therefore there will be some reporting periods where a week straddles the year end. In these situations, we would expect the rental payments relating to the period after the year end to be deferred.

Example for a £280 weekly rental payment (straight line basis):

28/03/20X4	29/03/20X4	30/03/20X4	31/03/20X4	01/04/20X4	02/04/20X4	03/04/20X4
Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
£40	£40	£40	£40	£40	£40	£40
£160				£120		
Recognised in income				Deferred income		

The SORP has provided guidance on this basis in paragraphs 10.5 to 10.8.

1.2.5. Non-lease components (i.e. service charges) [lessors]

Tenants of social landlords enter into lease agreements with the social landlord. Under these lease agreements there will be a rental charge and potentially a service charge. These service charges are an amount that tenants (or an authority on their behalf) pay to cover the costs of communal and shared services (such as buildings insurance, security, communal cleaning) and can be set at fixed or variable rates.

We note the inclusion in Section 20 Leases of FRS 102 which states the following:

'20.27 A contract may contain multiple components, of which some may relate to the lease of an asset and some may relate to other items such as services.'

20.28 For a contract that is, or contains, a lease, an entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract, unless the entity applies the practical expedient in paragraph 20.33⁴'

Service charges largely relate to services provided to the tenants and the reimbursement of costs and are not directly for the use of the asset. We therefore consider that these represent a non-lease component.

FRS 102 states:

20.36 For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract applying paragraphs 23.65 to 23.77

As such, we consider the recognition of the service charges element of a lease contract falls within Section 23 *Revenue from Contracts with Customers* of FRS 102 (as required by paragraph 20.36 of FRS 102) and should be excluded from lease payments for determining the lease income and related disclosures.

Further consideration of service charge income is set out above under revenue recognition.

1.2.6. Disclosures – maturity analysis [lessors]

FRS 102 (Revised) removes the distinction of a non-cancellable lease, specifically requiring (in the case of operating leases):

20.121 A lessor shall disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

The SORP working party considered this requirement in detail, and concluded that:

- the disclosure should refer to not just the 'non-cancellable period' for which payments are guaranteed, but should extend to the 'lease term' as defined in FRS 102, i.e. assuming extensions based on whether the lessee is reasonably certain to/not to exercise extension options; and

⁴ The practical expedient is as follows:

20.33 As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

- the disclosure should include assumptions about future increases in the CPI index, even though such assumptions are not required elsewhere (for example, measuring a lessee's liabilities in accordance with paragraph 20.54 of FRS 102).

Consideration of lease term

When identifying the lease payments to be included in the disclosure, consideration is required as to the lease term. Sections 20.37 to 20.44 of FRS 102 (Revised) provide guidance on determining the lease term.

Section 20.40 states (highlights our emphasis):

'At the commencement date, an entity (whether the lessee or the lessor) assesses whether the lessee is reasonably certain to exercise an option to extend the lease or to purchase the underlying asset, or not to exercise an option to terminate the lease. As a result of paragraph 20.38, when a lessee is able to choose between a shorter or a longer period, the lease term shall be the shorter period unless the lessee is reasonably certain to choose the longer period.'

There is consideration required as to whether a lessee is reasonably certain to choose the longer period, which would require detailed analysis by an RP. The SORP working party considered the following in respect of the standard agreements:

General Needs

A general needs tenancy agreement cannot ensure lease payments for anything longer than the four-week notice period, and this period could therefore be considered be the minimum lease term. However, RPs would need to be able to demonstrate that a tenant is not reasonably certain to extend beyond four-weeks.

Intermediate Rents

Whilst these agreements have a guaranteed minimum period of 6 months, and therefore any disclosure would depend upon the timing of the issuing of the lease. As for General Needs tenancies, RPs would need to be able to demonstrate that a tenant is not reasonably certain to extend beyond the guaranteed minimum period.

Shared Ownership

The lease term for shared ownership leases is often more than 900 years (the model agreement provides for 990 years). Additionally, lease income from Share Ownership will fluctuate where leaseholders increase their holding in the property. This would therefore not result in a meaningful analysis of future income streams.

The above therefore presents significant challenges in the administrative effort required to determine the lease term on a lease by lease basis. The SORP working party therefore considered that a portfolio basis would be appropriate for determining the lease term. Given that properties are often re-occupied reasonably quickly after being vacated, and that social landlords closely monitor and report on the level of voids, applying an annual attrition rate equivalent to the void rate would be a reasonable estimate of any annual change in income from lapsing tenancies.

The SORP working party also considered the period of time beyond the first five years, in light of the fact pattern above, and concluded that a period of time that aligns with the business plan reporting requirements of the regulators (i.e. 30 years) would be a reasonable period of time to look beyond the first five years.

Determination of quantitative disclosure

There would also be a number of significant assumptions required for annual rent increases, which are driven by government policy and inflation. As social landlords cannot reasonably forecast these changes, the SORP working party considered that applying annual rental increases based on the rent standard in affect at the reporting date would be appropriate, and that no assumptions relating changes to inflation rates should be included. This aligns with the treatment of variable lease payments under paragraph 20.54 of FRS 102 which mandates that assumptions relating to changes in indexes or rates are not taken into account.

The above would therefore allow for consistency in disclosures provided by social landlords to satisfy the requirements of FRS 102 paragraph 20.121.

1.2.7.Accounting for Shared Ownership [lessors]

The SORP working party have considered whether the changes in relation to leases impact on the accounting treatment of shared ownership arrangements as set out in the extant SORP.

For shared ownership arrangements, the considerations in 1.2.1 above apply, however additional consideration is required in respect of determining if there is an identified asset.

In particular, we considered whether following the first tranche disposal (akin to a property sale noted above) there is a remaining identified asset, being the balance of the property than remains after the sale, and therefore the shared ownership arrangement continues to meet the definition of a lease. In this case, part of the underlying asset has been sold to the tenant, with the remaining proportion rented from the social landlord.

Paragraph 20.22 of FRS 102 states *“A portion of an asset can be an identified asset if it is physically distinct (e.g. a floor of a building). A portion of an asset that is not physically distinct (e.g. a capacity portion of a fibre optic cable) cannot be an identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from use of the asset.”*

As the two elements of the asset are not physically distinct, the SORP working party considered whether the retained portion of the asset represents substantially all of the capacity of the asset and concluded that:

- the customer has exclusive use of the underlying asset in its entirety throughout the period of use.
- the customer is consuming the value of the underlying asset in its entirety during the period (i.e. they are benefiting from the depreciation of the property)
- Whilst the RP receives the cash flows, the customer has the ability to let out room(s) within the property (subject to certain requirements and express permissions) and can therefore also obtain a financial gain (cash inflows)

Based on the above, the SORP working party concluded that the arrangements are leases on the basis that following the first tranche disposal, the customer (tenant) does have the right to control the use of an identified asset, even though the rental element itself is a non-physically-distinct capacity portion.

Classification as a finance or operating lease

Paragraph 20.90 of FRS 102 states

“The examples and indicators in paragraphs 20.88 and 20.89 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset, the lease is classified as an operating lease. For example, this may be the case if ownership of the underlying asset transfers at the end of the lease for a variable payment equal to its then fair value, or if there are variable lease payments, as a result of which the lessor does not transfer substantially all such risks and rewards.”

In a shared ownership arrangement the lease payment is variable, rental income is received from the shared-owner based on a percentage of the market value (plus annual RPI linked increases) and the subsequent staircasing sales are based on market value of the property at the time of transaction.

The SORP working party therefore concluded that for shared ownership arrangements it is appropriate to split the transaction between first tranche, being a sale of goods as noted above in section 1.1.3 Property sales and the retained property interest being the granting of an operating lease with any subsequent staircasing transaction treated as a disposal of fixed assets.

Having considered the requirements of revised FRS 102, we do not consider that any of the revisions impact on the current accounting treatment of shared ownership sales as set out in extant Housing SORP. We are therefore not proposing any changes to the wording of the SORP.

Guidance on this basis is provided in paragraphs 6.50 to 6.56.

The SORP working party do not consider there to be any further matters in respect of leases that require specific consideration for the application of FRS 102 for social landlords.

2. Repairs responsibility – 2021 Shared Ownership Model

Under the 2021 Shared Ownership Model the housing provider (being the landlord) sells the shared ownership property with added protection that the landlord will contribute up to £500 per annum towards qualifying internal repairs and bear the cost of external and structural repairs during the initial period (being 10 years from the date the lease is granted or the period to full staircasing, whichever is shorter). This is a requirement of the grant funding provided by government for the development of shared ownership units.

FRS 102 paragraph 21.4 states that *“An entity shall recognise a provision only when:*

- (a) the entity has an obligation at the reporting date as a result of a past event;*
- (b) it is probable (i.e. more likely than not) that the entity will be required to transfer economic benefits in settlement; and*
- (c) the amount of the obligation can be estimated reliably.”*

FRS 102 requires a provision to be measured *“at the best estimate of the amount required to settle the obligation at the reporting date”*. It defines *“best estimate”* as the amount an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.

The obligation on the landlord is to fund the **full** cost of the defined repairs during the ‘initial repair period’ regardless of the percentage share of the property initially sold or owned by the Shared Owner at the reporting date (except for when full staircasing is reached and 100% ownership rests with the Shared Owner, at which time the landlord obligation ceases). Therefore, the provision should be estimated based on the cost to settle the obligation at the reporting date (being either the cost for the landlord to carry out the repair or the amount payable to the leaseholder for them to carry out the repair).

The Initial Repair Period lasts 10 years and during this time there may be multiple claims for repairs. Where it is established that there is an obligation the provider will estimate the cost to settle the obligation throughout the Initial Repair Period until the obligation is extinguished. The obligation exists at the point of property sale and as such would mean that the cost to settle is an estimate of all expected repairs during the Initial Repair Period.

The proposed accounting treatment above was subject to a 12-week consultation in 2023. There were no significant observations or objections raised from this consultation. As such the proposed accounting treatment has been reflected in proposed paragraphs 9.12 to 9.19 of the SORP. Given the guidance is shorter than the guidance previously consulted on, we are seeking further feedback from social landlords on this matter.

3. Right to Shared Ownership

The Right to Shared Ownership⁵ is available to tenants living in new homes for Social Rent or Affordable Rent delivered through the Affordable Homes Programme 2021-26, with some limited exceptions. The Right to Shared Ownership will allow eligible tenants who occupy eligible properties to purchase their social or affordable rented property on Shared Ownership terms.

The Housing SORP working party considered the new provision and the accounting treatment and have sought to issue guidance to assist preparers of financial statements. A housing provider must determine the intended use for each property (or class of properties) and the Housing SORP provides further guidance for making this determination.

The requirement is to classify based on “intended use”. Therefore, it is concluded that where a property is developed for social/affordable rent, albeit with the Right to Shared Ownership (RTSO) under the new model, the property should initially be recognised within Property, Plant and Equipment as General Needs Rental based on the original intended use of the property. The existence of a RTSO and the likelihood of it being exercised, is not considered relevant to the classification of the property.

Conversely where the original intended use for a property is shared ownership the housing provider should follow the accounting treatment for Shared Ownership set out in SORP paragraphs 6.50 to 6.59.

The proposed accounting treatment above was subject to a 12-week consultation in 2023. There were no significant observations or objections raised from this consultation, however giving the proposed guidance is shorter than the previous consultation, views are sought again on this matter.

As such the proposed accounting treatment has been reflected in proposed paragraphs 6.60 to 6.62 of the SORP.

⁵ <https://www.gov.uk/right-to-shared-ownership>

4. Other significant amendments

The SORP working party considered other changes to FRS 102, alongside other guidance consulted upon as set out in Section 1 above. Key matters requiring consideration for the updated SORP were identified as follows:

- Narrative reporting
- Financial instruments
- Investments in Joint Ventures
- Housing Properties
- Stock transactions – grant
- Building safety, sustainability and decarbonisation
- Employee benefits

4.1. Narrative Reporting

Chapter 4 of the extant SORP requires all social landlords to prepare a strategic report where there are over 5,000 of homes in management. We are proposing to reduce this to over 1,000 homes, which will provide greater transparency and consistency across the larger registered providers. In addition, the SORP is proposing an amendment to the title of the report from 'Strategic Report' to 'Annual report of the board' to avoid confusion with the Strategic Report requirements of the Companies Act 2006.

Regulator	Requirement per accounts direction/determination/order	Impact of change [based on data obtained from the relevant regulator]
Regulator of Social Housing [England]	All registered providers with at least 5,000 homes must prepare a strategic report. Smaller registered providers are encouraged to prepare one.	Based on the 2024 Global Accounts (financial analysis of 200 large provider groups which own or manage at least 1,000 social homes, together representing more than 96% of the sector's stock), there are 229 registered providers, of which 143 own or manage >5,000 homes and 2 own or manage < 1,000. An additional 84 registered providers would be captured by the proposed change. The SORP working party has reviewed a sample of these and note that in all cases such a report was already prepared. The expected cost impact of the proposed change is therefore expected to be minimal.
Welsh Government [Wales]	All registered providers with a stock of over 250 units must prepare a strategic report.	No impact
Scottish Housing Regulator [Scotland]	No specific narrative reporting requirements – all registered providers are required to follow the requirements of the SORP.	An additional 63 registered providers will fall within scope of the proposed change and will be required to prepare an annual report. The SORP working party has

		reviewed a sample of these and note that in all cases such a report was already prepared. The expected cost impact of the proposed change is therefore expected to be minimal.
Department for Communities [Northern Ireland]	No specific narrative reporting requirements – all registered providers are required to follow the requirements of the SORP.	An additional 5 registered providers will fall within scope of the proposed change and will be required to prepare an annual report. The SORP working party has reviewed a sample of these and note that in all cases such a report was already prepared. The expected cost impact of the proposed change is therefore expected to be minimal.

4.2. Financial Instruments

Chapter 6 of the extant SORP signposts to FRS 102 and does not provide details of any specific considerations for social landlords. The decision was therefore made to remove this chapter from the SORP, and reference to the relevant sections of FRS 102 added to Chapter 18 *Other accounting requirements* of the SORP.

4.3. Investments in Joint Ventures

Chapter 7 of the extant SORP signposts to FRS 102 and does not provide details of any specific considerations for social landlords. The decision was therefore made to remove this chapter from the SORP, and reference to the relevant sections of FRS 102 added to Chapter 18 *Other accounting requirements* of the SORP.

4.4. Housing Properties

The structure of Chapter 6 of the 2026 SORP has been significantly refreshed to align more closely with the structure of Section 16 *Investment Property* and Section 17 *Property, Plant and Equipment* of FRS 102.

Key changes have also been made to this Chapter of the SORP to provide clarity and consistency in accounting treatment. The key changes being:

- Clarification of the accounting treatment of land acquired for mixed tenure development schemes.
- Clarification of the components of “net disposal proceeds” for the purpose of derecognition of assets in accordance with paragraph 17.30 of FRS 102 regarding costs associated with continuing to service a revenue contract that can’t be terminated prior to disposal (SORP paragraph 6.46).
- Moved the section on Stock Transactions from Chapter 17, Specialised Activities of the extant SORP to Housing Properties chapter as this more closely aligns with the nature of the transactions. The SORP working party have taken the opportunity to revisit the accounting treatment of grants in stock transactions between registered providers due differences of opinion in the sector on appropriate treatment following the 2014 SORP consultation. This is covered in detail below.
- Added a new section on ‘Regeneration schemes’. This is discussed in detail under ‘Other significant amendments’ below.
- Added a new section on ‘Exchange of assets’. This section is aimed at clarifying the point at which the derecognition of the exchanged asset is made in the financial statements, further detailed below.
- Provided clarification on the capitalisation of certain costs and enhanced the definition incremental future benefits, see below for further details.

4.5. Stock transactions – grant

FRS 102 defines a government grant as “Government assistance in the form of a transfer of resources to an entity in return for past or future compliance with specified conditions relating to the operating activities of the entity.”

There may be occasions where social housing providers receive certain types of grant, where in accordance with the terms and conditions (and in England the Capital Funding Guide) certain situations (such as ceasing to provide social housing within a property or sale to a non-social housing provider) will trigger a repayment or recycling of the grant. This is not dissimilar to many other government or charitable grants where there is a clawback clause that would allow for clawback if the grant is no longer spent in accordance with the specified conditions.

The SORP working party does not consider this type of funding to be akin to a loan as it is provided in perpetuity, and it is within the control of the housing provider as to whether they trigger a repayment or recycle. As such, the SWP considers this type of funding to be a government grant. There are also example clauses that mean the funding is only repayable if there are available proceeds. This is significantly different to a loan which would be repayable regardless of whether a disposal was made at profit or loss.

Where social housing is acquired from another social landlord, the funder may agree for the funding to transfer with the housing properties to the acquiring social landlord. As a result, the social landlord disposing of the housing properties is released from its obligation to repay or recycle the grant funding, and the acquiring social landlord takes on an obligation to repay or recycle the grant funding if those properties are sold or no longer used as social housing in the future.

Section 24 *Government Grants* of FRS 102 requires an entity to recognise government grants either on the performance model or the accrual model and allows a policy choice to be applied on a class-by-class basis. Under extant SORP, the policy choice is removed and where a housing property is developed or acquired with the use of grant funding, the grant received is recognised as a liability (as deferred income) and amortised over the life of the asset (where the property is accounted for using the cost model) being the accruals model or taken directly to revenue (where the property is accounted for using the revaluation model) being the performance model. Where a grant repayment crystallises, amounts previously recognised as grant income would be reversed, any remaining deferred grant income would be reclassified as a grant repayment liability and a further amount recognised so that the total liability recognised in the Statement of Financial Position is based on the present value of the cash or other economic resources that the entity expects to be obliged to transfer to fulfil the liability (generally the original value of the grant received unless agreed otherwise with the funder).

In some instances, a social landlord may enter into an agreement with another social landlord to purchase housing properties from one another in return for non-monetary asset(s) or a combination of non-monetary and monetary asset(s). The value of the transaction to both parties is equal.

Paragraph 17.31 and 17.32 of the extant SORP state the following:

“17.31 Where there is a government grant associated with the housing properties that are part of the stock transaction, the fair value of the obligation to repay or recycle the government grant is reflected in the fair value of the housing properties and therefore no additional value should be attributed to the government grant transferred.”

17.32 This SORP requires that the notes to the financial statements disclose details of the stock transaction including the government grant transferred with the housing properties. In addition, the statement of accounting policies must clearly set out the policy for recognition of an asset in a stock transaction.”

Under the extant SORP following a stock transaction between social landlords a contingent liability for the potential obligation to repay is disclosed, on the basis that a repayment of grant would only be required if a specified uncertain future event occurred (such as the disposal of the property being acquired). No additional value is attributed to the government grant received, therefore no grant income is recognised.

Considering the substance of the transaction the SORP working party noted that in England, registered providers generally receive grant from Homes England and are subject to the requirements of the Capital Funding Guide (which was published in 2016, after the publication of the extant SORP). The Capital Funding Guide contains the rules and procedures for all providers delivering affordable housing through one of

Homes England's affordable homes grant programmes. The Capital Funding Guide (paragraph 2.7.4.12) states the following which is considered relevant:

“The sale or transfers of grant-funded property between any class of Registered Provider is a relevant event for grant recovery purposes. However, with Homes England’s consent, a Registered Provider can request that the grant liability and any conditions pass to the recipient Registered Provider as if they had originally received the grant themselves.”

We understand that equivalent stock transactions between Registered Providers in Scotland or Northern Ireland may not be as prevalent. However, we noted the Welsh Government Social Housing Grant Scheme notes “Where properties are sold, the grant must either be recycled into the Recycled Capital Grant (RCG) fund or repaid to Welsh Government.” There is no specific guidance given where a property is sold to another registered provider, with all sales treated in the same manner.

It is therefore considered appropriate to account for any grant associated with an acquired housing property (where the funder has given consent for the grant to transfer to the recipient) as if the recipient entity had originally received the grant themselves. Accounting treatment would therefore follow Chapter 11 Grants of the SORP, this has been noted in paragraphs 6.74 and 6.75 of the chapter on housing properties.

This treatment is consistent with the requirements of paragraph 24.5G of FRS 102, which states ‘*Where part of a grant relating to an asset is deferred it shall be recognised as deferred income and not deducted from the carrying amount of the asset.*’.

From the selling social landlord’s perspective, the accounting treatment should reflect the position as if the government grant had never been received.

As this is change to an existing requirement, the new requirement would have to be applied retrospectively and therefore some social landlords would have to restate comparative information. Currently grant liabilities transferred as part of a stock transaction (i.e. an exchange of assets, see paragraph 17.14 of FRS 102) are not separately recognised because the extant SORP considered the grant received to be reflected in the fair value of the acquired housing properties (paragraph 17.31 of the extant Housing SORP). The amendment would require a grant associated with an acquired housing property to be separately recognised, with a corresponding increase to the housing property asset. In accordance with proposed paragraph 11.8 of the Housing SORP, the grant received would be recognised on the balance sheet as deferred income and released over the remaining useful life of the asset (where a social landlord has a policy of measuring housing properties at cost) or as revenue (where a social landlord has a policy of measuring housing properties at valuation). The following impact has been identified:

- Impairment - It may be considered an issue for impairment if the cost of the asset is increased however as evidenced by the example below, the amendment is not considered to have any impact. Only where an indicator of impairment is identified in accordance with Chapter 12 of the SORP would an impairment review be necessary (acquiring an asset with grant attached is not an impairment indicator in its own right).
- Gearing – it may be considered an issue for gearing as the funding liabilities on the balance sheet have increased however in the sector government grant is not included in a gearing calculation.
- Operating surplus – would improve either through the release of grant to revenue on acquisition or through the ongoing amortisation each year.
- Time taken to restate financial statements for amendment – the grant liability should already be known for the disclosure made of contingent liabilities. Whilst this will require adjustment on transition it is not considered too great a cost to achieve the benefit for greater understandability.

Impairment example

Housing property acquired for £1,000,000 (being value of monetary and non-monetary assets)
Grant associated with property £500,000 (being the full, unamortised grant value)
EUV-SH at reporting date £800,000
Impairment trigger subsequently identified and EUV-SH used to determine the recoverable amount in the impairment assessment.

For the purposes of this example we have ignored depreciation and grant amortisation

	Extant SORP	SORP 2026 amendment
Impairment calculation at reporting date being recoverable amount less carrying amount	Recoverable amount £800,000 Less carrying amount ¹ £1,000,000 <i>(under extant SORP there is no grant in the Statement of financial position so no deduction)</i>	Recoverable amount £800,000 Less carrying amount ¹ <i>(£1,500,000 - £500,000²)</i> £1,000,000
	Impairment £200,000	Impairment £200,000

¹ Proposed paragraph 12.34 (extant paragraph 14.23) of the SORP states that the carrying amount of the asset or cash-generating unit is calculated as the net book value of the asset or cash-generating unit (cost or valuation less depreciation) less any unamortised grant in the Statement of Financial Position relating to the asset or cash-generating unit.

² Being the cost of the acquired property grossed up for the grant also acquired.

4.6. Building safety, sustainability and decarbonisation

There has been a raft of additional fire safety and building safety standards and guidance issued in the aftermath of the Grenfell Tower fire, not least from the Building Safety Act 2022. For housing providers this has resulted in significant additional spend and planned future spend for existing properties.

With the housing sector bound by the government's net carbon zero by 2050 target and the target to bring all social housing up to an Energy Performance Certificate (EPC) rating of C by 2030 we are starting to see decarbonisation costs flow through the accounts of registered providers. The National Housing Federation has estimated the total cost to the sector of achieving net carbon zero to be at least £36bn.

These additional costs to existing properties (both building safety and decarbonisation) may reduce the EBITDA MRI interest cover percentage (such as the Value for Money metric required to be reported by the Regulator of Social Housing in England) and impact any associated loan covenants.

The government has committed funding to the social housing sector by way of a decarbonisation grant fund. In 2023 Homes England also announced that grant funding provided through the Government's Affordable Homes Programme 2021-26 can now be used to fund replacement homes, alongside new affordable homes, as part of wider estate regeneration plans. This means the housing and regeneration agency can better support partners to replace housing that is outdated and no longer fit-for-purpose, with a larger number of high-quality, energy efficient new affordable homes.

The key considerations in respect of these matters have been identified as:

- Regeneration schemes;
- Exchange of assets;
- Impairment;
- Provisions; and
- Capitalisation.

4.6.1. Regeneration schemes

Regeneration involves strategies to improve an area. This could be through the construction of infrastructure, development of new housing, refurbishing the existing buildings, encouraging investment or any other activity that would improve an area. This may also include the demolition of existing buildings.

A current challenge facing social landlords is the appropriate accounting treatment for regeneration projects.

The challenge is that as the demolition is a disposal, any gain/loss on disposal is included within operating surplus/deficit, and there is therefore an impact on the Statement of Comprehensive Income. This has a significant impact on the results in the Statement of Comprehensive Income and can impact on compliance with loan covenants i.e. if treated as a loss on disposal this is not typically carved out in the covenants, whereas an impairment loss can be.

FRS 102 states:

17.27 An entity shall derecognise an item of property, plant and equipment: (a) on disposal; or (b) when no future economic benefits are expected from its use or disposal.

17.28 An entity shall recognise the gain or loss on the derecognition of an item of property, plant and equipment in profit or loss when the item is derecognised (unless Section 20 Leases requires otherwise on a sale and leaseback). The entity shall not classify such gains as revenue.

17.29 The date of disposal of an item is the date the recipient obtains control of that item in accordance with the requirements in paragraphs 23.85 to 23.89 for determining when a performance obligation is satisfied. Section 20 applies to disposal by a sale and leaseback.

17.30 An entity shall determine the gain or loss arising from the derecognition of an item of property, plant and equipment as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Social landlords recognise properties by component in accordance with FRS 102:

17.16 If the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life.

On transition to component accounting social landlords were required to estimate the split between components (typically the land, the structure, the roof, the windows and kitchens / bathrooms) for existing assets, which was generally determined on a percentage basis using information provided by surveyors.

Proposed accounting treatment

It was noted that further guidance in relation to regeneration would create greater consistency of accounting treatment across social landlords.

The SORP working party considered it appropriate for the decision by a social landlord to proceed with a regeneration scheme to trigger a reassessment of the residual value or useful life of the housing asset under paragraph 17.19 of FRS 102. For example, if the building is due to be demolished in 2 years time then a shortening of the useful life would be expected and the net book value of the asset would be depreciated over the 2 years (being the remaining useful economic life).

As a result, accelerated depreciation would be recognised in the statement of comprehensive income. It is noted that this would have a reduced impact on EBITDA / EBITDA-MRI compared to a disposal as noted above.

For the purposes of Chapter 12 Impairment of the SORP and paragraph 17.26 of FRS 102 the approval of a regeneration scheme shall be considered an indicator that a housing asset may be impaired and as such the entity shall measure the recoverable amount of the asset and compare to the carrying amount.

The demolition of the building is considered the point of derecognition, and FRS 102 paragraph 17.28 requires that a gain/loss is recognised in the Statement of Comprehensive Income on derecognition.

Guidance on this basis has been included in the SORP paragraphs 6.65 to 6.67.

4.6.2.Exchange of assets

It may be the case that there is an exchange of assets whereby a social landlord provides land (and existing buildings) to a private developer in exchange for new assets (which are received when the development is complete). This may involve the demolition of existing properties.

The exact nature of the exchange can vary, however the final assets 'returned' to the social landlord will represent the land transferred plus the new buildings and excludes any land which has been released to the developer as part of the transaction.

There is a relevant paragraph in FRS 102:

17.14 An item of property, plant or equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. An entity shall measure the cost of the acquired asset at fair value unless:

- (a) the exchange transaction lacks commercial substance; or*
- (b) the fair value of neither the asset received nor the asset given up is reliably measurable.*

In that case, the asset's cost is measured at the carrying amount of the asset given up.

However, this does not indicate the accounting treatment. A question arises as to whether the asset of the social landlord should be derecognised in the entity prior to the receipt of the new assets. This is particularly challenging if the re-development goes on for several years.

A property being exchanged by the social landlord may be demolished as part of the arrangement. Where this is the case, the property would have no value to either party and therefore cannot form part of the asset exchange under paragraph 17.14(a) of FRS 102, which requires an exchange of assets to have commercial substance. The SORP working party concluded that where a property is to be demolished as part of an exchange of assets, the property should be derecognised on demolition.

Secondly, in some arrangements, land will be transferred to another party as part of an exchange of assets, but the social landlord will not receive assets in return until the development is complete. The SORP working party considered that derecognising the land at the point of the initial transfer would not accurately reflect the substance of the transaction and considered the requirements of paragraph 17.27 of FRS 102 which states '*An entity shall derecognise an item of property, plant and equipment: (a) on disposal; or (b) when no future economic benefits are expected from its use or disposal.*'

The SORP working party considered that:

- as the social landlord will receive future economic benefits from the disposal (transfer) of the land when it receives assets in return the requirement in 17.27(b) is not met.; and
- a disposal under 17.27(a) has not occurred as if the social landlord were not to receive the assets in exchange then it is more likely than not that the arrangement would be cancelled.

The SORP working party therefore concluded that the appropriate point in time to recognise the disposal of the land is when the exchange of assets is completed i.e. the point in time at which the social landlord takes control of the new assets.

Additional guidance has been provided in proposed paragraphs 6.66 to 6.73 of the SORP.

4.6.3. Impairment

There are no substantial changes resulting from the second periodic review of FRS 102 and no sector specific matters that indicate a need to revise the general guidance in relation to impairment contained in the Housing SORP Chapter 12.

However, with the growth of Right to Buy, Right to Acquire and Right to Shared Ownership the SORP working party considered it appropriate to add the following proposed wording to Chapter 12 *Impairment of assets* (paragraph 12.7 of the SORP):

Where a property is occupied by a third party (usually a tenant), which has a right to purchase/acquire the property, either outright or via shared ownership, at a set value, this right will need to be considered as part of assessing the property for indicators of impairment. When the carrying amount of the property exceeds the value at which it can be purchased by a third party this is usually an indication that the property may be impaired.

The SORP working party has also taken the opportunity to include the following in the list of common indicators of impairment of social landlords (paragraph 12.6 of the SORP) to reflect the relevant example provided by FRS 102 paragraph 27.9(f).

- (f) Plans to dispose of an asset before the previously expected date.*

Additionally, the requirements of paragraph 14.28 of the extant SORP have been reconsidered, with additional clarification provided as to when costs incurred in rectifying an issue are included in depreciated replacement cost ("DRC"). As currently worded, the requirement is that all costs of rectifying an issue are not included, however the SORP working party considered, for example, that were an impairment required due to contaminated land, and the land was therefore impaired, rectification costs should be included in the DRC.

Paragraph 12.29 of the revised SORP now states '*...Where the land is impaired, costs incurred in rectifying an issue, such as contamination of land, should be included in the depreciated replacement cost. For the elements other than land, the cost of construction must represent the lowest cost of construction, reflecting optimal conditions.*'

4.6.4.Provisions

Chapter 9 of the SORP has been updated as a result of the SORP working party identifying inconsistency in respect of recognising provisions for non-compliance with laws and regulations in relation to property assets. The SORP working party has sought to include guidance within the SORP that creates greater clarity on whether a provision should be recognised, when and at what value.

The following proposed wording has therefore been included in Chapter 9 *Provisions and Contingencies* of the SORP:

Future costs necessary to meet regulatory requirements

9.10 Certain laws or regulations may require a social landlord to carry out work on its properties. Examples of such laws and regulation could be government imposed requirements for decarbonisation, building safety, or the Decent Homes Standard. In most circumstances it will be appropriate to conclude that these works arise from the entity's future actions and do not satisfy the recognition criteria for a provision (see paragraph 9.5 of this SORP). However, where there is a legal or constructive obligation to carry out works to such properties but laws or regulations prohibits those costs being passed on to the leaseholder or tenant, or the social landlord expects to waive the charges and this has been communicated to the leaseholder or tenant, this SORP considers the works satisfy the criteria in paragraph 21.4 of FRS 102 for recognition of a provision.

9.11 Where the rights and obligations for improving a housing property reside with the leaseholder or tenant rather than the social landlord, any works to improve such a property would normally be incurred directly by the leaseholder or tenant or recharged on by the social landlord through a service charge.

It is noted that a corresponding asset (within Housing Properties) should only be recognised to the extent that it meets the definition of an asset. The Periodic Review 2024 amendments makes changes to Section 2 *Concepts and Pervasive Principles* of FRS 102 to the definition of an asset as follows:

2.36 An asset is a present economic resource controlled by the entity as a result of past events.

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

The revised Section 2 goes on to state that "*Control links an economic resource to an entity. Assessing whether control exists helps to identify the economic resource for which the entity accounts. An entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it. An entity has the present ability to direct the use of an economic resource if it has the right to deploy that economic resource in its activities, or to allow another party to deploy the economic resource in that other party's activities.*"

In most instances the SORP working party would consider it appropriate to conclude that the social landlord does not control a present economic resource as a result of past events on the recognition of a provision for works to leaseholder property.

4.6.5.Capitalisation

In order to achieve regulatory compliance and meet sustainability targets social landlords are investing significant amounts into existing property assets. This investment includes installation of new components, whereby a cost represents a new addition to a property and replacement components, whereby the property already has an equivalent component, however this is being replaced in order to either achieve regulatory compliance or to deliver sustainability targets. This significant increase in investment into existing assets is driving some inconsistency in accounting treatment. In order to achieve consistency the SORP working party feel it is appropriate to provide further guidance in relation to this in the Housing SORP.

The Housing SORP currently refers to FRS 102 in relation to recognition of Property Plant and equipment. It is proposed to add additional direct extracts from FRS 102 from paragraphs 17.6 and 17.7 in order to emphasise the considerations in relation to replacement components.

Additional wording is proposed as follows to include sector specific examples of costs that are considered expenses of incidental operations during construction or development of an item of property, plant and equipment:

6.31 Paragraph 17.12 of FRS 102 states that expenses of incidental operations during construction or development of an item of property, plant and equipment are recognised in profit or loss if those operations are not necessary to bring the item to its intended location and operating condition. For social landlords this may include costs such as temporary accommodation for tenants or fire safety waking watch. These are not considered operations necessary to bring the item to its intended location and operating condition. Such costs are considered costs of continuing to satisfy the performance obligations of a revenue contract with customers (if this cannot be terminated) and as such should be treated as expenditure in the Statement of Comprehensive Income.

The extant Housing SORP provides users with the following guidance in relation to assessing future economic benefits:

Examples of incremental future economic benefits to a social landlord include an increase in the rental income over the life of the housing property, a reduction in future maintenance costs or a significant extension of the life of the property.

This has been updated in paragraph 6.26 as follows:

Works to housing properties should only be recognised as an addition to the carrying amount of the asset to the extent that they provide an incremental future benefit. Examples of incremental future benefits to a social landlord include, but are not limited to:

- (a) an increase in the rental income over the life of the housing property,*
- (b) a reduction in future maintenance costs,*
- (c) an extension of the life of the property, or*
- (d) a contribution to increased environmental benefits as part of social purpose objectives (for example decarbonisation).*

Additional wording is proposed in paragraph 6.25 as follows:

These principles also apply if components of a property are required to be enhanced or replaced as a result of new or changed regulation or to achieve sustainability targets. This would be considered to be a cost necessary for the asset to be capable of operating in the manner intended and can therefore be capitalised. The costs of the components replaced will need to be derecognised in accordance with paragraph 6.46.

4.7. Employee benefits

Chapter 13 has been updated to include a number of new disclosure requirements in relation to employee benefits, in particular those regarding the remuneration of key management personnel and salary bandings for employees earning >£60,000.

These requirements currently exist, with limited variation, within the relevant regulators' accounts direction / determination / order, and therefore should not increase costs of preparers. The key benefit is to provide consistency and comparability across each of the jurisdictions and consistency with other PBE SORPs.

The SORP working party have initially discussed this approach with each of the regulators to consider amending the relevant accounts direction / determination / order accordingly. There is a challenge in respect of Ireland where the requirements are set out in statute, and amending the order may be challenging in practice, however the only significant variance from the proposed SORP disclosures is the requirement to show remuneration bandings of £5,000 rather than £10,000. The SORP working party considers that this difference does not give rise to a risk of duplicated effort or disclosures. The approach will be finalised after further discussions with the regulators and feedback from this consultation.

Invitation to comment on amendments to the Housing SORP

Deadline for responses: 11:45pm on Monday 12 January 2026.

Responses should be submitted in electronic format via the [form provided](#). Alternatively, responses may be provided by email to eam@housing.org.uk.

If you have any queries, please contact Matthias Barker, Policy Leader, National Housing Federation, matthias.barker@housing.org.uk.

Responses to this invitation to comment will be made publicly available on the National Housing Federation website (on behalf of the SORP-Making Body) unless confidentiality is specifically requested. Contact details will be redacted.

Responders will find it helpful to have both a copy of the extant SORP and the exposure draft of the revised SORP when considering the consultation questions.

Consultation questions

1. Is there any section of FRS 102 that is not addressed in the SORP on which you feel additional guidance or interpretation is needed for the social housing sector?
2. Do you have any general comments, specific issues or remarks you would like to make on the SORP 2026 Exposure Draft and/or Basis of Conclusion that are not already addressed by questions 3 to 20?

Chapter 1: Introduction and scope

3. Do you agree that this SORP should apply to both non-profit social landlords and for-profit social landlords, apart from (clearly marked) sections that only apply to Public Benefit Entities (PBEs) as defined by FRS 102? Do you feel the SORP provides sufficient clarity on this distinction?

Chapter 4: Narrative reporting

4. Do you agree with the proposal in paragraph 4.3 that all entities owning more than 1,000 homes be required to produce an annual report 'commensurate with the size of the business'?

Chapter 6: Housing properties

5. Do you agree with the proposed addition to the capitalisation criteria in paragraph 6.26(d)? If not, is there an alternative you would propose? Do you feel there are further criteria that should be stated? Or do you feel additional criteria are not necessary? Please explain, with reference to the Basis of Conclusions set out above.
6. Do you agree with the proposed amendment in paragraph 6.46 clarifying the calculation of net disposal proceeds and providing guidance on types of cost that should not be treated as part of net disposal proceeds?
7. Do you agree with the proposed accounting treatment of regeneration projects in paragraphs 6.64 to 6.65 of the SORP? If possible, please provide evidence on the effect that this interpretation of paragraphs 17.26 to 17.30 of FRS 102 will have on the financial reporting of registered providers' regeneration schemes.
8. Do you agree with the proposed accounting treatment of exchange of assets in paragraph 6.66 to 6.73? Do you consider the treatment of building disposal on demolition reflects the substance of the exchange relationship?
9. Do you agree with the amended treatment of grant in stock transactions outlined in paragraphs 6.74 to 6.75 of the SORP and justified in the Basis of Conclusion above? Are there any specific examples that you think it would be beneficial for the SORP to draw out? Do you have any concerns about

being able to implement this change retrospectively from information currently in accounts disclosure notes?

10. Do you agree with the proposed change to paragraph 12.29 to include the costs of rectifying impaired land in the depreciated replacement cost of an asset? If not, please provide your reasons.

Chapter 8: Leases

11. Do you agree with the lease topics that the proposed SORP addresses the accounting treatment of? Are there other areas it would be beneficial to include?
12. Do you consider that the proposed guidance in respect of agreements at less than market rent in paragraphs 8.8 to 8.16 is sufficient?
13. Do you agree with the conclusion that the changes to Section 20 of FRS 102 do not affect the existing accounting treatment for shared ownership?
14. Do you agree with the proposed simplifications for the disclosure of a maturity analysis of lease payments receivable by lessors in paragraph 8.22?
15. Do you agree with the other proposals in respect of the implementation of Section 20 *Leases* of FRS 102, in Chapter 8 of the SORP?

Chapter 9: Provisions and contingencies

16. Do you agree with the proposed additional guidance in the SORP around whether to recognise a provision, especially relating to costs necessary to meet regulatory requirements (paragraphs 9.10 and 9.11)?
17. Do you consider that proposed paragraphs 9.12 to 9.18 provide sufficient guidance on repair obligations under the new shared ownership model? If not, what additional guidance or illustrative examples would be helpful?

Chapter 10: Income

18. Do you agree with the conclusions in respect of service charge income and sinking funds?
19. Do you feel the SORP provides sufficient guidance on housing specific matters to allow preparers of the financial statements to implement the new requirements of Section 23 *Revenue from Contracts with Customers* of FRS 102?

Chapter 13 – Employee benefits

20. Do you agree with the proposed transfer of the employee benefit disclosures from the applicable accounts' direction / determination / order to the SORP?

Organisational details

21. Organisation name
22. Contact details (email address)
23. Type of organisation (accounting firm or body / Registered Provider (England) / Registered Social Landlord (Scotland) / Registered Social Landlord (Wales) / Registered Housing Association (Northern Ireland) / regulator or grant issuer / lender / other)
24. Do you consent to your response being published on the National Housing Federation website (on behalf of the SORP-Making Body)? (Y/N)