

Housing SORP: 2026 edition

Statement of Recommended Practice
for registered social housing providers

DRAFT FOR CONSULTATION

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In relation to FRS 102, this SORP exposure draft is for guidance only and is not a substitute for referring to the full text version of FRS 102 which is a joint copyright document of the FRC and the IFRS Foundation.

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Foreword

This draft Statement of Recommended Practice (SORP) for consultation reflects the changes to Financial Reporting Standard 102 resulting from the Periodic Review 2024 amendments issued by the Financial Reporting Council in March 2024. This SORP is effective for financial years beginning on or after 1 January 2026.

The Financial Reporting Council (FRC) has approved Community Housing Cymru, the National Housing Federation, the Northern Ireland Federation of Housing Associations and the Scottish Federation of Housing Associations (the four Federations) to collectively issue a recognised SORP for registered social housing providers. This arrangement requires the four Federations to follow the FRC's *Policy on Developing Statements of Recommended Practice (SORPs)* for the development and issuance of this SORP.

Social landlords are subject to accounting requirements through Determinations or Statutory Instruments (SIs), the Companies Act 2006, the Co-operative and Community Benefit Societies Act 2014 (CCBS Act) (which consolidates the previous Industrial and Provident Societies Acts), the Communities Industrial and Provident Societies Acts 1965-2002 (Northern Ireland 1969), the Charities Act 2011 or the Charities and Trustee Investment (Scotland) Act 2005 (see Part 4 paragraphs 351-357). The central objective of this SORP is to narrow areas of difference of accounting within the social housing sector by recommending, as far as possible, preferred accounting treatments and providing guidance in applying UK GAAP which will enable social landlords to comply with the applicable accounting requirements. However, it is not a substitute for the accounting requirements themselves.

The development of this SORP has been led by the SORP Working Party, which involves representatives from housing regulators, accounting practitioners, housing sector finance professionals, lenders and professional bodies. Crowe U.K. LLP was engaged as technical advisor to the SORP Working Party. The SORP Working Party will take into consideration comments raised during the consultation and feedback provided in finalising the SORP. The SORP Working Party will review the SORP each year (in line with the requirements of section 75 of the FRC Policy on Developing Statements of Recommended Practice) and consider whether there is any additional guidance required based on feedback from practitioners and stakeholders in the sector.

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Financial Reporting Council Statement

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

Financial Reporting Council

17 October 2025

Introduction and scope

Effective date

- 1.1 The provisions of this Statement of Recommended Practice (SORP) are applicable for accounting periods commencing on or after 1 January 2026. Early adoption is permitted as described in Chapter 17 *Transition to this SORP* if the accounts direction of the relevant regulator permits it.

Scope of this SORP

- 1.2 Financial Reporting Standard 100 'Application of financial reporting requirements' (FRS 100) states that '*SORPs recommend particular accounting treatments and disclosures with the aim of narrowing areas of difference and variety between comparable entities. Compliance with a SORP that has been generally accepted by an industry or sector leads to enhanced comparability between the **financial statements** of entities in that industry or sector*'.
- 1.3 The recommendations of this SORP are applicable to all **registered social housing providers** in the United Kingdom (referred to as 'social landlords' in this SORP) that apply FRS 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland'. This SORP applies to both non-profit social landlords and for-profit social landlords.
- 1.4 In relation to FRS 102, this SORP is for guidance only and is not a substitute for referring to the full text version of FRS 102 which is a joint copyright document of the FRC and the IFRS Foundation.
- 1.5 'Accounting and reporting by charities: the statement of recommended practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland ([FRS 102](#)) (effective 1 January 2026)' (the Charities SORP)¹ notes that 'where

¹ The Charity SORP is currently under consultation, and the final version is not yet published at the time of

a separate SORP exists for a particular class of charity (for example SORPs applicable to Registered Social Housing Providers...), those charities should adhere to that SORP'. Therefore, charitable social housing providers registered with one of the housing regulatory bodies should adhere to this SORP rather than the Charities SORP. Charities that are not registered with one of the housing regulatory bodies should comply with the Charities SORP but should refer to this SORP for guidance where the Charities SORP is silent.

- 1.6 The FRC Policy of Developing Statements of Recommended Practice (SORPs), issued in November 2024, states that: *'When entities or work may fall within the scope of more than one SORP, the SORP to be applied will usually be the SORP with the more specific application. In such circumstances, the SORP-making body shall agree with the FRC and the other relevant SORP-making bodies which SORP should apply and identify this clearly within the relevant SORPs.'* The SORP Making Body agrees with this statement, as the Social Housing sector has special financial and reporting issues that are different from those other organisations that have charitable status, and therefore in such cases, the requirements of the Housing SORP should take precedence over the Charities SORP.
- 1.7 In the event that a social landlord is required by legislation to, or chooses to, comply with standards and interpretations issued (or adopted) by the International Accounting Standards Board that have been adopted in the United Kingdom (UK-adopted international accounting standards), then it should use this SORP as guidance to the extent that it does not conflict with the requirements of UK-adopted IFRS.
- 1.8 Social landlords following this SORP must apply all requirements under FRS 102, relevant legislation, and accounts directions/determinations/orders from the regulator applicable to the reporting social landlord. When an update to FRS 102, relevant legislation or regulatory accounting direction/determination/order is issued after publication of the most recent edition of this SORP, any of the provisions of this SORP that conflict with the updated FRS 102, accounting direction/determination/order or legislation will cease to have effect.
- 1.9 This SORP is drafted to provide guidance on formats, accounting treatments and disclosures which will enable social landlords to comply with FRS 102; however, it is not a substitute for the accounting standard itself. This SORP should be used in conjunction with FRS 102 as the detailed accounting requirements of FRS 102 are not repeated in full within this SORP.
- 1.10 When a social landlord applies this SORP it shall state in its financial

statements the title of this SORP and whether its financial statements have been prepared in accordance with the SORP's provisions that are currently in effect.

- 1.11 Entities that are small, as defined in FRS 102, are permitted to adopt the small entity requirements of FRS 102 with the exception of cash flow exceptions where paragraph 3.11 of this SORP requires a cash flow statement regardless of size.

Terminology used in this SORP

- 1.12 This SORP identifies particular accounting treatments and disclosures that 'shall' be followed. These 'shall' requirements originate from FRS 102 unless otherwise stated and refer to mandatory requirements that social landlords are expected to follow. A failure to follow a 'shall' recommendation is regarded as a departure from FRS 102 and this SORP.
- 1.13 This SORP uses the terms 'must' and 'this SORP requires' to indicate those recommendations that are likely to affect the ability of the financial statements to give a true and fair view if not applied to **material** transactions or items. Where this SORP states that an item is always material or the recommendation is one which 'must' be followed or 'this SORP requires' the recommendation to be followed, non- adherence to that recommendation is a departure from this SORP.
- 1.14 This SORP uses the term 'should' for recommendations aimed at advancing standards of financial reporting as a matter of good practice. While social landlords are encouraged to follow all of this SORP's recommendations, a failure to follow a 'should' recommendation is not considered to be a departure from this SORP.
- 1.15 Where this SORP states that a particular accounting treatment or disclosure 'may' be adopted, this is an illustration of an approach to a particular disclosure that a social landlord may choose to adopt, or identifies that an alternative accounting treatment or disclosure of a transaction or event is permitted by this SORP.
- 1.16 For the sake of readability, the term social landlord has been used in this SORP as a generic term to cover all registered social housing providers, including housing associations, trusts, co-operatives and housing companies.
- 1.17 Section 4 *Statement of Financial Position* of FRS 102 and Section 5 *Statement of Comprehensive Income and Income Statement* of FRS 102, require all entities to follow one of the formats set out in the Companies Act 2006 which use Companies Act 2006 terminology. This SORP uses the terminology set out in FRS 102. In some cases, this SORP includes the

equivalent Companies Act 2006 terminology in brackets. The illustrative primary statements in the Appendix to this SORP use standard Companies Act 2006 terminology and terminology most applicable to the social landlords (as permissible by paragraph 4(1) of schedule 1 to the Regulations).

Glossary

- 1.18 Terms and abbreviations included in the glossary of this SORP are highlighted in **bold type** the first time they appear in this SORP. A glossary containing definitions of these terms and abbreviations is included at the end.

Chapter 2

Concepts and pervasive principles

- 2.1 Section 2 Concepts and Pervasive Principles of FRS 102 provide guidance on the principles underpinning the preparation of the financial statements.
- 2.2 The **objective of general purpose financial statements** is to provide financial information about the social landlord that is useful for decision-making by a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.
- 2.3 The accounting concepts and pervasive principles underlying the financial statements of entities are set out in Section 2 *Concepts and Pervasive Principles* of FRS 102. This SORP does not reproduce the detailed guidance in full and therefore social landlords must consider the terminology, definitions and guidance contained within FRS 102 when preparing financial statements and shall apply these concepts and principles.
- 2.4 This SORP supports the application of the qualitative characteristics set out in Section 2 *Concepts and Pervasive Principles* of FRS 102 which are noted as the following:
- *relevance;*
 - *materiality;*
 - *faithful representation;*
 - *comparability;*
 - *verifiability;*
 - *timeliness; and*
 - *understandability.*

Chapter 3

Financial statement presentation

- 3.1 This section sets out the requirements for the presentation of financial statements. Section 3 *Financial Statement Presentation* of FRS 102 explains the requirements for financial statements to give a true and fair view and what constitutes a complete set of financial statements. This section of the SORP also discusses aspects of Section 10 *Accounting Policies, Estimates and Errors* of FRS 102 and paragraphs 8.6 and 8.7 of FRS 102 covering information about judgements and key sources of estimation uncertainty.

Public benefit entity

- 3.2 A **public benefit entity (PBE)** is defined in FRS 102 as ‘an entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any **equity** is provided with a view to supporting the entity’s primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members’.
- 3.3 Paragraph PBE3.3A of FRS 102 requires that a public benefit entity that applies the ‘PBE’ prefixed paragraphs of FRS 102 shall make an explicit and unreserved statement that it is a public benefit entity.
- 3.4 A for-profit social landlord (‘FPSL’) is a social landlord that is not considered a PBE, and therefore certain requirements of this SORP, for example the treatment of **non-exchange transactions**, are not applicable. Where the requirements are not applicable for FPSL this is clearly indicated in the relevant chapter of this SORP.

Content of financial statements

- 3.5 A complete set of financial statements must include all of the following:
- (a) a **Statement of Financial Position** as at the **reporting date**

- (b) a single **Statement of Comprehensive Income** (see paragraph 3.7 of this SORP)
 - (c) a **Statement of Changes in Equity** for the **reporting period**
 - (d) a **Statement of Cash Flows** for the reporting period, except as set out in paragraph 3.11 of this SORP
 - (e) notes to the financial statements, comprising a summary of material accounting policy information and other explanatory information
 - (f) narrative reporting requirements as set out in Chapter 4 *Narrative reporting* of this SORP.
- 3.6 In accordance with paragraph 1.5 of FRS 102, a social landlord whose debt or equity instruments are publicly traded, or that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market, or an entity that chooses to provide information described as segment information, shall apply IFRS 8 'Operating Segments' (as adopted in the relevant jurisdiction). If an entity discloses disaggregated information, but the information does not comply with the requirements of IFRS 8, it shall not describe the information as segment information. For the avoidance of doubt, when preparing **consolidated financial statements**, social landlords must apply IFRS 8 if there is any listed debt held by any entity within the group structure.
- 3.7 Paragraph 5.2 of FRS 102 allows entities to present either a single Statement of Comprehensive Income or a separate **Income Statement** and separate Statement of Comprehensive Income. This SORP requires social landlords to present a single Statement of Comprehensive Income.
- 3.8 Paragraph 3.14 of FRS 102 requires comparative information in respect of the preceding period for all amounts presented in the current period's financial statements, including comparatives for narrative and descriptive information where it is relevant to the understanding of the current period's financial statements, except when FRS 102 permits or requires otherwise.
- 3.9 Social landlords shall apply the following sections of FRS 102 when considering the presentation of their financial statements:
- Section 3 *Financial Statement Presentation*
 - Section 4 *Statement of Financial Position*
 - Section 5 *Statement of Comprehensive Income and Income Statement*
 - Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings*

- Section 7 *Statement of Cash Flows*
 - Section 8 *Notes to the Financial Statements*
 - Section 9 *Consolidated and Separate Financial Statements*.
- 3.10 An example of the format of the primary statements is set out in the Appendix to this SORP. These are provided for illustrative purposes only.
- [Consolidated Statement of Comprehensive Income](#)
 - [Consolidated Statement of Financial Position](#)
 - [Consolidated Statement of Changes in Reserves](#)
 - [Consolidated Statement of Cash Flows](#)
- 3.11 This SORP ordinarily requires a statement of cash flows to be prepared by all social landlords, regardless of size; however, a **qualifying entity** is exempt from preparing an individual cash flow statement if the conditions in paragraph 1.11 of FRS 102 are met.

Accounting policies, estimates and errors

- 3.12 The requirements for the selection and application of **accounting policies** are set out in Section 10 *Accounting Policies, Estimates and Errors* of FRS 102.
- 3.13 This SORP does not repeat Section 10 of FRS 102, and social landlords shall consider carefully the guidance set out within this section of FRS 102 which considers the following:
- (a) selection and application of accounting policies (paragraphs 10.2 to 10.6 of FRS 102)
 - (b) consistency of accounting policies (paragraph 10.7 of FRS 102)
 - (c) changes in accounting policies (paragraphs 10.8 to 10.14 of FRS 102)
 - (d) changes in **accounting estimates** (paragraphs 10.14A to 10.18 of FRS 102)
 - (e) corrections of prior period **errors** (paragraphs 10.19 to 10.23 of FRS 102)
- 3.14 Section 8 *Notes to the Financial Statements* of FRS 102 sets out the principles underlying the information that is to be presented in the notes to the financial statements and how to present it. Paragraph 8.6 of FRS 102 states ‘An entity shall disclose, along with material accounting policy information or other notes, the judgements, apart from those involving estimations (see paragraph 8.7 [of FRS 102]), that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements’. Key judgements

for a social landlord may include:

- Definition of ‘operating surplus/(deficit)’ or equivalent subtotal(s) on the statement of comprehensive income and the accounting policy to include or exclude material items from ‘operating activities’ or equivalent items on the statement of comprehensive income. Refer to paragraph 5.9B of FRS 102 for further guidance.
- Exemptions taken on transition to FRS 102.
- Categorisation of housing properties as investment properties or property, plant and equipment.
- Identification of a **cash-generating unit** for impairment assessment purposes.

3.15 FRS 102 paragraph 8.7 states that *‘An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:*

(a) their nature; and

(b) their carrying amount as at the end of the reporting period.’

3.16 An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information. Examples of accounting estimates provided by FRS 102 Section 10 include:

- (a) The **fair value** of an **asset** or **liability**, applying Section 2A *Fair Value Measurement*.
- (b) The estimated selling price less costs to sell of an item of inventory, applying Section 13 *Inventories*.
- (c) The depreciation expense for an item of property, plant and equipment, applying Section 17 *Property, Plant and Equipment*.
- (d) A provision for warranty obligations, applying Section 21 *Provisions and Contingencies*.
- (e) The **recoverable amount** of an item of property, plant and equipment,

applying Section 27 *Impairment of Assets* of FRS 102.

In addition, the SORP considers the following examples of estimates to be common for social landlords:

- (a) The allocation of cost of an item of property, plant and equipment between components with materially different useful economic lives applying Section 17 *Property, Plant and Equipment*;
- (b) The obligations under a defined benefit pension scheme applying Section 28 *Employee Benefits*;
- (c) The allocation of costs of a mixed tenure development between stock (inventories) and property, plant and equipment applying Chapter 6 of this SORP; and
- (d) The allocation of costs between stock (inventories) and property, plant and equipment of a **shared ownership property** applying Chapter 6 of this SORP.

3.17 Paragraph 3.3 of FRS 102 requires an entity whose financial statements comply with FRS 102 to make an explicit and unreserved statement of such compliance in the **notes to the financial statements**. In addition, in accordance with paragraph 1.7A of FRS 102 and paragraph 6 of FRS 100, a social landlord applying this SORP should state its title in its financial statements and whether those statements have been prepared in accordance with the SORP's provisions that are currently in effect.

3.18 Paragraphs 3.4 to 3.6 of FRS 102 include guidance to be applied where there is a departure from the requirements of FRS 102. Similarly, where a social landlord departs from the requirements of this SORP in preparing financial statements, in accordance with paragraph 6 of FRS 100, the social landlord shall give a brief description of how the financial statements depart from this SORP which shall include:

- (a) For any treatment that is not in accordance with the SORP, the reasons why the treatment is judged more appropriate to the social landlord's particular circumstances; and
- (b) Brief details of any disclosures recommended by the SORP that have not been provided and the reasons why they have not been provided.

Going concern

3.19 When preparing financial statements, management of the social landlord shall make an assessment of the entity's ability to continue as a **going concern**.

3.20 In making this assessment, management shall take into account all available

information about the future for at least, but not limited to, 12 months from the date on which the accounts are approved. This information may include forecasts and business plans submitted to the relevant regulator.

- 3.21 When a social landlord prepares financial statements on a going concern basis, it shall disclose that fact, together with confirmation that management has considered information about the future as set out in paragraph 3.8 of FRS 102.
- 3.22 Where management is aware, in making its assessment, of **material** uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern or does not prepare financial statements on a going concern basis, the social landlord shall disclose such matters as set out in paragraph 3.9 of FRS 102.
- 3.23 Social landlords shall also disclose any significant judgements made in assessing the social landlord's ability to continue as a going concern in accordance with paragraph 8.6 of FRS 102.

Chapter 4

Narrative reporting

- 4.1 This section sets out guidance to be followed by social landlords in the preparation of narrative reporting that must be included within a complete annual report. The objectives of the narrative reporting are:
- to provide information on the social landlord and insight into its main objectives and strategies and principal risks it faces
 - to complement, supplement and provide context for the related financial statements.
- 4.2 This SORP requires the following related reports to be presented with the financial statements:
- (a) An annual report from the board and disclosures required by relevant applicable legislation and regulatory requirements
 - (b) a statement of responsibilities of the board
 - (c) an independent auditors' report, where one is required or, if not required, where the social landlord chooses to have an audit.

Annual report of the board

- 4.3 This SORP requires the boards of social landlords with over 1,000 homes in management to publish an **annual report of the board**. An annual report of the board helps stakeholders to assess the **performance** of a **business**, providing a balanced and neutral assessment of the development and performance of the business during the financial year and setting out future plans and prospects, including risks and uncertainties to be faced. This commentary should be commensurate with the size of the business.
- 4.4 A social landlord with more than 1,000 homes that is a subsidiary within a **group** is exempt from including an annual report of the board alongside its

own individual financial statements, provided that:

- it is consolidated into the financial statements of a **parent** social landlord.
- an annual report of the board is prepared for the group and accompanies the consolidated financial statements.

This exemption does not apply to narrative reporting elements required by the regulators in the relevant jurisdictions.

4.5 This SORP requires that the annual report provides the information necessary for users of the financial statements to assess the following in relation to the social landlord:

- (a) its business model
- (b) its objectives and strategy for achieving those objectives
- (c) its development and performance throughout the financial year and position at the end of the financial year
- (d) its future prospects
- (e) a description of the principal risks and uncertainties being faced
- (f) analysis using financial and non-financial key performance indicators, including any value for money statements required by the relevant regulators
- (g) its governance, including any statements required by the relevant regulators.

4.6 The following principles should be followed in producing the annual report:

- (a) it should be fair, balanced and understandable
- (b) it should be comprehensive and concise
- (c) where appropriate, information in the report should have a forward-looking focus
- (d) it should provide information that is entity-specific
- (e) it should highlight relationships and interdependencies between information presented in different parts of the financial statements
- (f) the structure and presentation of the report should be reviewed annually to ensure it continues to meet its objectives in an efficient and effective manner.

4.7 This SORP does not prescribe the form and content of the annual report of the board and the board should consider how best to use the guiding principles in FRS 102 and this SORP to structure the report and its precise content. The content of the report should be reviewed annually to ensure that it continues

to be relevant in the current period. Where appropriate, the form and content of a social landlord's narrative reporting may be prescribed by relevant UK legislation. A social landlord must ensure it complies with the legislative requirements applicable to its organisation. For example, social landlords incorporated under the Companies Act 2006 must produce a strategic report if they are a medium-sized or large company as defined by the Companies Act 2006. The required contents of the strategic report and the directors' report are set out in sections 414C to 414CB and 416 respectively of the Companies Act 2006, both of which must be approved and signed on behalf of the board by a director or secretary of the company. Most of the information required by the Companies Act 2006 for the strategic report is also required by this SORP and there is no need to duplicate this information.

- 4.8 However, to ensure that the financial statements are compliant with the Companies Act 2006, the directors of the company must:
- clearly identify the strategic report (as required by the Companies Act 2006) within the report from the board by including a separate heading of 'Strategic Report';
 - ensure that the financial statements and accompanying reports have been appropriately approved; and
 - ensure that the strategic report is signed on behalf of the board of directors by a director or the company secretary (as required by Section 414D(1) of the Companies Act 2006).
- 4.9 For social landlords that are incorporated under the Companies Act and meet the small or medium-sized companies thresholds set out therein, certain exemptions may be available which reduce the amount of information that must be provided. Further details of this exemption can be found at Section 414B and Section 414C of the Companies Act 2006.
- 4.10 Social landlords which are established as charities must prepare an annual report in compliance with the relevant legislation in the applicable jurisdiction(s). A separate report in compliance with the relevant legislation may not be required if other reports already contain all the information required.

Chapter 5

Consolidated and separate financial statements

- 5.1 This section sets out the requirements for the parent organisation of social landlords to report consolidated financial statements. It also includes guidance on individual and **separate financial statements**.

Requirement to present consolidated financial statements

- 5.2 Section 9 *Consolidated and Separate Financial Statements* of FRS 102 sets out the requirement to present consolidated financial statements, with exemptions available from this requirement at paragraph 9.3 of FRS 102. Social landlords can apply these exemptions in considering whether there is a requirement to prepare consolidated financial statements.
- 5.3 If the parent social landlord is a registered society under the Co-operative and Community Benefit Societies Act 2014 (CCBS Act) (which consolidates the Industrial and Provident Societies Act 1965), section 99(3) of the CCBS Act allows exemption from producing consolidated financial statements if permission is granted by the Financial Conduct Authority (FCA). The board of the social landlord can make an application to the FCA for such an exemption where they believe the relevant conditions exist as set out in the CCBS Act.

Requirement to present separate financial statements

- 5.4 Section 408 of the Companies Act 2006 (the Companies Act) exempts company groups from issuing (but not from preparing) the profit and loss account for the parent company in the group financial statements. This exemption is not available under Section 89 of the CCBS Act which requires all registered societies to prepare a revenue account.

- 5.5 For the purposes of the Companies Act and the CCBS Act, the Statement of Comprehensive Income meets the requirements of a profit and loss account/a revenue account.
- 5.6 Social landlords must prepare and submit their own financial statements (including a Statement of Financial Position, Statement of Comprehensive Income and related notes) to the relevant regulatory bodies in accordance with the applicable legislative requirements.

Disclosures

- 5.7 This SORP requires the following disclosures be made in a note to the consolidated group financial statements, in addition to those required by FRS 102:
- (a) The legal status of all entities in the group, for example an incorporated charity, a registered social housing provider or a limited company.
 - (b) The legal and commercial relationships between all entities in the group, whether or not the entities are registered social housing providers.
 - (c) Details of any material financial transactions between entities in the group except where the social landlord is exempt from making related party disclosures in relation to transactions entered into between two or more members of a group in accordance with paragraph 33.1A of FRS 102. The exemption permitted by paragraph 33.1A of FRS 102 does not apply to disclosures and statements required by a relevant accounting direction/determination/order issued by the appropriate regulator.
- 5.8 Paragraph 9.23(f) of FRS 102 requires the disclosure of the nature and extent of a social landlord's interests in unconsolidated special purpose entities, and the risks associated with those interests.

Chapter 6

Housing properties

- 6.1 This section sets out the accounting requirements and guidance to be followed in accounting for **recognition**, classification and measurement of housing properties and should be read in conjunction with the following sections of FRS 102:
- (a) Section 16 *Investment Property* of FRS 102, which applies to accounting for investments in land or buildings where they meet the definition of an **investment property**.
 - (b) Section 17 *Property, Plant and Equipment* of FRS 102, which applies to the accounting for **property, plant and equipment (tangible assets)**.
 - (c) Section 13 *Inventories* of FRS 102, which applies to the accounting for **property developed for sale**.
 - (d) Section 24 *Government Grants* of FRS 102, which applies to accounting for government grants.
- 6.2 Housing properties arising from **leases** (i.e. **right-of-use assets**) are recognised in accordance with Chapter 8 *Leases* of this SORP.
- 6.3 The classification of a social landlord's housing properties as investment property, property, plant and equipment (tangible assets) or inventory (stock) will depend on the intended use of the property when it is available for use. A social landlord may have a portfolio of housing properties which include classes of property that are investment property and classes of property that are property, plant and equipment (tangible assets) and may be developing property for sale, either outright or shared ownership.

Intended use of the property

- 6.4 A social landlord shall determine the intended use for each property. In determining the intended use for the property, social landlords should consider

the following questions:

- (a) Is the asset held for social benefit?
- (b) What is the reason for/purpose of holding the asset?

The following list sets out some possible responses to this question:

- (i) to earn rental income
- (ii) for capital appreciation
- (iii) for both rental and capital appreciation
- (iv) for use in the production or supply of goods or services
- (v) for administrative purposes
- (vi) for sale in the ordinary course of business.

- 6.5 The following factors are not relevant in determining the intended use of each property:
- (a) the general and overarching purpose of an organisation, for example to provide social housing to the local community
 - (b) the purpose for which any profits from the activity of a housing property is applied, for example reinvesting profits from market rent housing properties into the provision of social housing would not mean that those market rented properties are held for social benefit.
- 6.6 For developments and schemes where there are **mixed tenures** (as set out in paragraph 6.63 of this SORP), a social landlord shall separate out the different tenure types and account for the housing properties separately.

Categorising properties

- 6.7 Properties that are held to earn commercial rental income or for capital appreciation, or both, shall be treated as investment properties and accounted for in accordance with Section 16 *Investment Properties* of FRS 102. Such properties would normally include properties held for market rent and commercial properties. Properties rented to provide social housing are not investment properties.
- 6.8 Properties that are used in the production or supply of goods or services or for administrative purposes, or properties that are held for the provision of social housing shall be treated as property, plant and equipment (tangible assets) and accounted for in accordance with Section 17 *Property, plant and equipment* of FRS 102. Such properties would normally include general needs properties, the rental part of shared ownership properties, affordable rent properties and office accommodation.

- 6.9 Properties that are developed for sale in the ordinary course of business or are in the process of development for such a sale should be recognised as inventories (stocks) in accordance with Section 13 *Inventories* of FRS 102.
- 6.10 There are a number of tenure types of housing property where it will be a matter of judgement whether they are categorised as investment property or property, plant and equipment (tangible assets). Social landlords shall determine the intended use of the property when categorising different tenure types of housing property. Relevant factors in determining whether the property is held for social benefit include whether a property is operating at below a market rent for the wider benefit of the community and whether a social landlord is subsidising the properties and operating them at a loss in order to continue providing a service.
- 6.11 It is important that each social landlord considers the use of its housing properties in the context of its own operations. Similar classes of housing properties may be held for different purposes by different social landlords, and this will impact on categorisation and accounting for the properties. For example:

A social landlord holds a commercial property as part of a wider social housing development.

Scenario one

The commercial property is rented out to a third party at a market rent, the social landlord has free choice over the tenant, and the property generates a return and is unconnected to the provision of social housing within the wider social housing development.

Scenario two

The commercial property is rented out to a third party at substantially below market rent and there are conditions specified by the local authority on the nature and type of business renting the property which the social landlord must comply with. The property is held to support the wider social housing community within the development and not to generate a financial return.

Categorisation

In Scenario one the commercial property is an investment property. In Scenario two there may be more judgement but based on the intended use of the property to support the wider social housing community and the fact that the rent charged is below the market rate, and the property would be classified as property, plant and equipment (tangible assets).

- 6.12 Where the nature or purpose of a property changes, a social landlord shall reassess the classification in accordance with paragraphs 6.7 to 6.11 of this SORP. Where the property is being reclassified to/from investment properties

a social landlord shall follow the requirements of paragraphs 16.9 to 16.9C of FRS 102.

Land

- 6.13 Land and buildings are separable assets, and a social landlord shall account for them separately, even when they are acquired together.
- 6.14 Land shall be accounted for based on its intended use. Where land is acquired speculatively with the intention of generating a capital gain and/or a commercial rental return it must be accounted for as investment property.
- 6.15 Where land is acquired for a **mixed tenure development scheme** (for example, general needs housing and outright sales) the cost should be apportioned in accordance with paragraph 6.63 of this SORP.

Investment property

Recognition

- 6.16 A social landlord shall recognise investment property in accordance with the requirements of Section 16 *Investment Property* of FRS 102.

Initial measurement

- 6.17 A social landlord shall measure an investment property at its cost at initial recognition. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other **transaction costs**. If payment is deferred beyond normal credit terms, the cost is the **present value** of all future payments. Where the investment property is self-constructed cost is determined in accordance with paragraphs 6.30 to 6.33 of this SORP.

Subsequent measurement

- 6.18 An investment property shall be measured at fair value at each reporting date with changes in fair value recognised in profit or loss.
- 6.19 This SORP considers that the fair value of any investment property can be measured reliably and must be accounted for in accordance with Section 16 of *Investment Property*, at fair value through **income and expenditure**, unless the property is rented to another group entity, in which case an accounting policy shall be selected in accordance with paragraph 16.4A of FRS 102. Section 2A *Fair Value Measurement* of FRS 102, provides guidance on determining fair value.

Derecognition

- 6.20 When a property ceases to meet the definition of an investment property (for

example it becomes owner-occupied or inventory) it is reclassified accordingly and its treatment covered by the relevant section of FRS 102 at the date of change in use in accordance with paragraph 16.9A of FRS 102. Section 16 of FRS 102 does not specifically address the derecognition of investment property, but a social landlord should derecognise investment property when it is disposed of or demolished. Any gain or loss between the disposal proceeds and the carrying amount should be recognised in the Statement of Comprehensive Income.

Property, plant and equipment (tangible assets)

Recognition

- 6.21 A social landlord shall recognise the cost of an item of property, plant and equipment as an asset if, and only if:
- (a) it is **probable** that future economic benefits associated with the item will flow to the entity; and
 - (b) the cost of the item can be measured reliably.
- 6.22 Paragraph 17.16 of FRS 102 provides that if major components of an item of property, plant and equipment (tangible assets) 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**. A housing property will always comprise a number of major components with substantively different patterns of consumption of economic benefits and therefore each major component must be recognised and depreciated over its individual economic life.
- 6.23 Examples of major components commonly identified by social landlords are:
- (a) Structure
 - (b) Roofs
 - (c) Boilers
 - (d) Kitchens
 - (e) Bathrooms
- 6.24 Parts of some items of property, plant and equipment may require replacement at regular intervals (e.g. the roof of a building). A social landlord shall add to the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future economic benefits to the social landlord. The carrying amount of those parts that are replaced is derecognised regardless of whether the replaced parts had been depreciated separately. If it is impracticable for a social landlord to identify the carrying

amount of the replaced part, it may be estimated using the current cost of the replacement part as a proxy for the original cost of the replaced part and adjusting it for depreciation and impairment. The incremental future economic benefit may be considered to be derived by contribution to the **service potential** of the item of property, plant and equipment. If there is not an incremental future economic benefit, the costs should be expensed to the Statement of Comprehensive Income.

- 6.25 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.
- 6.26 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).
- 6.27 Any works to housing properties which do not replace a component or result in an incremental future benefit must be charged as expenditure in the Statement of Comprehensive Income.
- 6.28 Where the obligation for and incremental future benefit of improving a housing property reside with the leaseholder or tenant rather than the social landlord (for example, in some shared ownership properties), any expenditure incurred by the social landlord to improve the property that can be recharged to the leaseholder shall not be added to the carrying amount of property, plant and equipment (tangible assets). This is the case even if the right to charge is waived by the social landlord due to a legal or constructive obligation. In these circumstances such expenditure shall be recognised in the Statement of Comprehensive Income along with any corresponding income from the leaseholder or tenant.
- 6.29 Social landlords shall refer to paragraphs 17.4 to 17.8 of FRS 102 for further guidance on the recognition of items of property, plant and equipment.

Initial measurement

- 6.30 A social landlord shall measure an item of property, plant and equipment at

initial recognition at its cost. The cost of an item of property, plant and equipment is defined in paragraphs 17.10 to 17.12 of FRS 102. It includes the purchase price, including irrecoverable VAT, and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

- 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.
- 6.32 A social landlord may adopt a policy of capitalising borrowing costs, in accordance with Section 25 *Borrowing Cost* of FRS 102, that are directly attributed to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. When a social landlord adopts a policy of capitalising borrowing costs, it shall be applied consistently to all qualifying assets.
- 6.33 Social landlords shall recognise the costs of day-to-day servicing of an item of property, plant and equipment in operating expenditure in the period in which the costs are incurred.

Subsequent measurement

- 6.34 A social landlord shall measure all items of property, plant and equipment after initial recognition using
- (a) the cost model (in accordance with paragraph 17.15A of FRS 102); or
 - (b) the revaluation model (in accordance with paragraphs 17.15B to 17.15F of FRS 102).
- 6.35 Where tenanted properties are intended to be sold or there is a plan to dispose of a property before the previously expected date, this is an indicator of impairment (as set out in paragraph 17.26 of FRS 102) and the requirements of Chapter 12 *Impairment* of this SORP, must be followed.

Revaluation model

- 6.36 Where the revaluation model is selected, this shall be applied to all items of property, plant and equipment in the same class of asset (i.e. having a similar nature, function or use in the business).

- 6.37 Under the revaluation model, property, plant and equipment (tangible assets) whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated **impairment losses**.
- 6.38 The fair value of land and buildings should be determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The fair value of items of plant and equipment is usually their market value determined by appraisal.
- 6.39 Where a property is occupied with a third party, (usually a tenant) which has a right to purchase the property at a set value, this right will need to be considered when measuring the value of the property. Where the cost or fair value of the property exceeds the value at which it can be purchased the value will need to be limited to the value of the right to purchase.
- 6.40 If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment (tangible assets) and the item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach. This SORP considers it unlikely that depreciated replacement cost will be an appropriate basis for valuation of a social landlord's property, plant and equipment (tangible assets) as it would only be relevant in the rare circumstances that the social landlord has a highly specialised asset for which there is no determinable market value. Where a social landlord adopts the revaluation model for their housing properties, this SORP requires that the basis of valuation for those social housing properties is based on the Royal Institution of Chartered Surveyors Valuation Standards and should be undertaken by professionally qualified valuers. For social housing properties it is expected that the appropriate basis for valuation will be **existing use valuation for social housing** (EUV-SH).
- 6.41 Unless there is an indication of impairment, valuations need not be calculated on individual properties to identify possible impairments contained within the valuation as a whole. There are unlikely to be material gains and losses on individual properties within a class of asset valuation, but where this is the case, material gains and losses on individual properties should not be aggregated.
- 6.42 Paragraphs 17.15E and 17.15F of FRS 102 set out the requirements for reporting gains and losses on revaluation and state that *'If an asset's carrying amount is increased as a result of revaluation, the increase shall be recognised in **other comprehensive income** and accumulated in equity. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. The decrease of an asset's carrying amount as a result of a*

revaluation shall be recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity in respect of that asset. If a revaluation decrease exceeds the accumulated revaluation gains in equity in respect of that asset, the excess shall be recognised in profit or loss’.

- 6.43 Where there is a revaluation movement recognised in the Statement of Comprehensive Income (in accordance with paragraph 17.15E and 17.15F of FRS 102), the social landlord should record a transfer between the income and expenditure reserve and the revaluation reserve. The transfer is the net amount recognised within income and expenditure in the Statement of Comprehensive Income of any government grant relating to the asset (recognised within income) and the revaluation movement.
- 6.44 Where not clearly identifiable, movements in the revaluation of housing properties should be allocated to the land and structure pro rata to their historical depreciated cost net of government grant. The value of individual components of the housing properties is considered to be equivalent to the depreciated historical cost of those components.

Derecognition

- 6.45 Paragraphs 17.27 to 17.30 of FRS 102 set out the requirements for derecognition of items of property, plant and equipment (tangible assets). 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.
- 6.46 This SORP requires that net disposal proceeds are calculated as the amount of consideration to which the social landlord expects to be entitled in exchange for transferring the housing property to the recipient. Costs which are associated with a revenue contract that cannot be terminated (for example, ongoing costs to house the tenant(s) of the disposed housing property in a new housing property) are not considered to be an element of net disposal proceeds, and this SORP requires that these be recognised as expenditure in the Statement of Comprehensive Income when incurred.

Inventory

- 6.47 Section 13 *Inventories* of FRS 102, sets out the principles for recognising and measuring **inventories** (stocks). Inventories (stocks) are assets:
- (a) held for sale in the ordinary course of business;
 - (b) in the process of production for such sale; or
 - (c) in the form of materials of supplies to be consumed in the production process or in the rendering of services.

- 6.48 This SORP considers that properties developed for outright sale, including work in progress, meet the definition of inventory (stock) as set out in FRS 102 and therefore must be accounted for in accordance with Section 13 *Inventories* of FRS 102. This includes the requirement to measure such assets at the lower of cost and estimated selling price less costs to complete and sell.
- 6.49 The accounting treatment for the sale of inventory is included in paragraphs 10.21 to 10.22 of this SORP.

Shared ownership properties

Initial recognition and measurement

- 6.50 Shared ownership properties, including those under construction, should be split between fixed assets and **current assets**. The split should be determined by the percentage of the property to be sold under a **first tranche disposal** which should be shown on initial recognition as a current asset, with the remainder classified as a fixed asset within the social landlord's property, plant and equipment (tangible assets) in the Statement of Financial Position.
- 6.51 The exception to this is where this would result in a surplus on the disposal of the current asset that would exceed the anticipated overall surplus. In these circumstances any surplus on disposal of the first tranche should be limited to the overall surplus by adjusting the costs allocated to current or fixed assets.
- 6.52 The overall surplus is the difference between the net **present value of cash flows** and the cost. For the purposes of this SORP, the net present value of cash flows will be the sum of first tranche proceeds, net rental streams and expected receipts from subsequent disposals of the asset, less any grant repayable.
- 6.53 The split of shared ownership properties between fixed and current assets and the apportioning of costs referred to in paragraph 6.50 of this SORP should be based on the best information available at the reporting date and the social landlord's intentions for the shared ownership property. Any changes to these estimates such as tenure changes or changes to the intended use of the asset should be updated as part of a normal change in accounting estimate in accordance with paragraphs 10.16 and 10.17 of FRS 102.

First tranche and subsequent disposals

- 6.54 Proceeds from the first tranche disposals should be accounted for as **turnover** in the Statement of Comprehensive Income of the period in which the disposal occurs.
- 6.55 Subsequent disposals of shared ownership properties should be treated in the same way as the disposal of property, plant and equipment (tangible assets) and accounted for in accordance with paragraphs 17.27 to 17.30 of FRS 102.

Cost of sales includes the incidental costs of executing the sale, including marketing costs and the proportion of the overall costs of bringing the asset to its present condition for sale. In the case of shared ownership sales as a part of mixed tenure developments, the cost of sales should be an appropriate apportionment of the cost of development (and any incidental costs of executing the sale).

- 6.56 Sales proceeds for the first tranche disposal only should be shown in income. Sales of subsequent tranches should be shown as 'Gains on disposal of housing properties' in the Statement of Comprehensive Income.

Impairment of shared ownership properties

- 6.57 Impairment of shared ownership properties is recognised in accordance with Chapter 12 *Impairment of assets* of this SORP.

Shared ownership properties and accounting for government grant

- 6.58 Where a social landlord receives grant for shared ownership properties this SORP requires that grant must be accounted for in accordance with Chapter 11 *Grants* of this SORP. Therefore, if a government grant is received for shared ownership properties which are accounted for at historical cost then this SORP requires, in accordance with paragraph 11.8(a), that grant be accounted for using the accrual model (as set out in paragraphs 11.16 to 11.21 of this SORP) and recognised in **income** on a systematic basis over the expected useful life of the asset. This is the case even where the **residual value** of the shared ownership property is so high that no depreciation is charged on the asset.

Disclosures

- 6.59 This SORP requires the notes to the financial statements to disclose the costs, sales income and surplus/deficit (for first tranche disposals) or gain/loss (for **staircasing**) on shared ownership properties and explain the shared ownership transactions in current and fixed assets.

Right to Shared Ownership

Initial recognition and measurement

- 6.60 Where a property is developed for social/affordable rent, albeit with the Right to Shared Ownership (RTSO), the property should initially be recognised within property, plant and equipment (tangible assets) as General Needs Rental based on the original intended use of the property. Social Housing Providers should follow the recognition and measurement criteria set out in paragraphs 6.30 to 6.33 of the SORP.
- 6.61 Should a right be subsequently exercised, the social landlord shall apply

paragraphs 6.54 to 6.56 of the SORP.

- 6.62 Where the original intention of use for a property is shared ownership the housing provider should follow the accounting treatment for Shared Ownership properties set out in paragraphs 6.50 to 6.53.

Mixed tenure development schemes

- 6.63 Where a social landlord has a mixed tenure development scheme which has more than one element, the social landlord must carefully consider how the costs incurred in acquiring and developing the land are attributed to each element of the scheme. For example, the value of land is likely to vary depending on what it is used for. Therefore, if land is acquired for the development of different types of property tenure, the allocation of the cost of the land to each element of the scheme should reflect the different tenure types.

Regeneration schemes

- 6.64 Where a social landlord has approved a regeneration scheme:
- (a) that approval is a plan to restructure the operation to which assets belong and therefore, in accordance with paragraph 27.9(f) of FRS 102, shall be considered an indication that an asset may be impaired and as such a social landlord shall estimate the recoverable amount of the asset in accordance with Chapter 12 Impairment of this SORP.
 - (b) a social landlord shall reassess the useful economic life ('UEL') and residual value of the associated property, plant and equipment and the asset depreciated over the revised UEL. Where the property is to be demolished as part of the regeneration scheme, the residual value is likely to be nil or very close to nil.
- 6.65 At the date of demolition, the associated property, plant and equipment is derecognised in accordance with paragraph 6.46 of this SORP.

Exchange of assets

- 6.66 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 combination of non-monetary and monetary asset(s) (for example housing properties and cash). The value of the transaction to both parties is equal and is often referred to as a stock swap.
- 6.67 Social landlords may also enter into similar agreements to exchange assets with other bodies, such as local authorities or property developers.

- 6.68 Paragraphs 6.71 to 6.77 of this SORP apply where the housing properties that are part of the stock swap are accounted for as property, plant and equipment.
- 6.69 For the purposes of Chapter 12 *Impairment* of this SORP and Section 27 *Impairment of Assets* of FRS 102 the approval of an exchange of assets that is expected to occur before the previously expected disposal date shall be considered an indicator that an asset may be impaired and as such the entity shall measure the recoverable amount of the asset.
- 6.70 Where a property is demolished as part of the exchange of assets this is considered to be a disposal and is derecognised.
- 6.71 At the date of exchange of assets, including those at low, nil or negative values, social landlords will need to consider whether the transaction is the acquisition of assets (and liabilities) representing a business combination, in accordance with this SORP and Section 19 *Business Combinations and Goodwill* of FRS 102. Social landlords must consider all relevant factors when considering whether there is a business combination as a result of an exchange of assets or whether they have acquired a series of assets and liabilities. Key indicators as to whether the transfer represents a business combination are likely to be (but are not limited to):
- (a) the extent to which employees have transferred with the properties
 - (b) the existence and extent to which there is a transfer of a free-standing central administrative function
 - (c) the existence and extent to which there is a transfer of other assets and business infrastructure such as computer equipment, systems and networks and office buildings.
- 6.72 Where a transaction is not a business combination, paragraph 17.14 of FRS 102 requires that where an item of property, plant or equipment is acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, a social landlord 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.
- 6.73 Where land is transferred to another party as part of an exchange of assets the social landlord may not receive assets in return at the same time (for example, in exchange for that land the other party might construct housing properties on other land still owned by the social landlord). In that case, the criteria in paragraph 17.27 of FRS 102 for derecognition of the land are usually met at the point the exchange of assets is completed, i.e. the point in

time at which the social landlord takes control of the new assets, which is when disposal of the land is complete and the economic benefit of that disposal has been realised. The social landlord shall determine the gain or loss arising from the derecognition as the difference between the net disposal proceeds, being the cost of the assets acquired (measured in accordance with paragraph 17.14 of FRS 102), and the carrying amount of the land exchanged.

Grants on housing property acquisition

- 6.74 Where an acquired housing property (either by direct purchase or as part of an exchange of assets) has an existing social housing grant attached where there is a requirement to repay or recycle the grant on disposal of the housing property and this requirement will transfer with the properties from one social landlord to the other (noting that this may be subject to the funder giving consent for the grant to transfer to the recipient), this becomes a new grant in the receiving social landlord's financial statements as if it had received the original grant itself.
- 6.75 In these circumstances the social landlord shall recognise the grant transferred with the housing properties as part of the accounting for the acquisition for the full amount of the grant in accordance with paragraphs 11.11 to 11.13 (where housing properties are recognised at cost) or 11.16 to 11.21 (where housing properties are recognised at fair value) of this SORP. Following initial recognition of the grant, the social landlord's accounting policy for grants shall be applied in accordance with Chapter 11 *Grants* of this SORP.

Stock transaction – worked example

This example assumes that housing properties are accounted for at cost (noting that the “Fair value” is only being used to quantify the consideration cost between social landlords) As the social landlord accounts for property at cost, the accrual model must be applied for the recognition of government grant. This example ignores the impact of depreciation of housing properties and amortisation of government grant.

The following stock transaction is taking place between two social landlords:

Social landlord 1		Social landlord 2	
100 Units		80 Units	
	£'000		£'000
Carrying value	8,000	Carrying value	6,000
Unamortised Grant (£4,000k including amortised element)	3,200	Unamortised Grant (£3,000k including amortised element)	2,400
Fair value EUV-SH	16,000	Fair value EUV-SH	13,000

The fair value (EUV-SH) of the housing property taking into account the associated grant relating to the properties being transacted is therefore as follows:

Social landlord 1 - £12,000,000 Social landlord 2 will, therefore, pay £2,000,000 in cash in addition to the stock being transferred to Social landlord 1.
 Social landlord 2 - £10,000,000

The funders have agreed for the grant obligation related to the properties to be transferred to the receiving social landlord as if they had originally received the grant themselves. The full grants (amortised and unamortised) are noted above.

Accounting entries in social landlord 1 for the stock swap transaction

	£'000	£'000
Cr Property, plant and equipment (tangible assets)		8,000
Dr Deferred grant income	3,200	
Dr Property, plant and equipment (tangible assets)	13,000	This becomes the deemed cost
Dr Cash	2,000	
Cr Deferred grant income	800	3,000
Profit on disposal comprising:		
Dr - Reversal of grant income		
Cr - Profit on disposal (i.e. proceeds less cost)		8,000
	19,000	19,000

Notes to the financial statements - stock transaction

In the current year [name of social landlord 1] entered into a stock transaction with [name of social landlord 2]. The consideration received was housing properties with a fair value (EUV-SH) of £13,000,000, associated government grant funding transferred of £3,000,000 and £2,000,000 cash. The consideration paid was housing properties with a fair value (EUV-SH) of £16,000,000 and associated government grant funding transferred of £4,000,000, for which the obligation to recycle or repay in accordance with the original grant funding terms and conditions has transferred to [name of social landlord 2].

Accounting entries in Social landlord 2 for the stock swap transaction

	£'000	£'000
Cr Property, plant and equipment (tangible assets)		6,000
Dr Deferred grant income	2,400	
Dr Property, plant and equipment (tangible assets)	16,000	This becomes the deemed cost
Cr Cash		2,000
Cr Deferred grant income		4,000
Profit on disposal, comprising:		
Dr - Reversal of grant income	600	
Cr - Profit on disposal (i.e. proceeds less cost)		7,000
	19,000	19,000

Notes to the financial statements – stock transaction

In the current year [name of social landlord 2] entered into a stock transaction with [name of social landlord 1]. The consideration paid was housing properties with a fair value (EUV-SH) of £13,000,000, associated government grants received of £3,000,000 and £2,000,000 cash. The consideration received was housing properties with a fair value (EUV-SH) of £16,000,000 and associated government grant funding of £4,000,000, for which the obligation to be recycled or repay in accordance with the original grant funding terms and conditions has transferred to [name of social landlord 2].

Disclosures

- 6.76 In addition to the disclosure requirements set out in Section 16 *Investment Property* of FRS 102 and Section 17 *Property, Plant and Equipment* of FRS 102, this SORP requires that the following disclosures must be included in the notes to the financial statements for all housing properties included as either current or fixed assets in the Statement of Financial Position:

- (a) the split between completed properties held as fixed assets and those

under construction

- (b) the split between completed properties held as current assets and those that are work in progress.

6.77 This SORP requires that a social landlord disclose details of any stock swap transactions, including any government grants transferred. In addition, the disclosure of material accounting policy information must clearly set out the policy for recognition of an asset in a stock swap.

Chapter 7

Business combinations and goodwill

- 7.1 This section sets out the guidance to be followed in accounting for business combinations and goodwill. A **business combination** is defined in FRS 102 as '*the bringing together of separate entities or businesses into one reporting entity*'. The result of nearly all business combinations is that one entity, the acquirer, obtains **control** of one or more other businesses, the acquiree. The **acquisition date** is the date on which the acquirer obtains control of the acquiree.
- 7.2 Social landlords must consider carefully the substance of the combination to ensure it is accounted for in accordance with the requirements of FRS 102 and this SORP.
- 7.3 As required by paragraph 19.6 of FRS 102 all business combinations shall be accounted for by applying the purchase method, except for:
- (a) **Group reconstructions**, which may be accounted for by using the merger accounting method; and
 - (b) Public benefit entity **combinations that are in substance a gift** or that are a **merger**.
- 7.4 Paragraphs 19.7 to 19.26A of FRS 102 set out the considerations for a business combination to be accounted for by applying the purchase method which social landlords must apply in full when accounting for a business combination under the purchase method.

Group reconstructions

- 7.5 Group reconstructions may be accounted for using merger accounting, provided:
- (a) the use of merger accounting is not prohibited by company law or other

relevant legislation

- (b) the ultimate equity holders remain the same, and the rights of each equity holder relative to others, are unchanged
 - (c) no **non-controlling interest** in the net assets of the group is altered by the transfer.
- 7.6 Where these criteria are met, a social landlord is able to account for a group reconstruction applying the merger accounting method set out in paragraphs 19.29 to 19.33 of FRS 102.

Public benefit entity combinations

- 7.7 Paragraphs 7.8 to 7.10 of this SORP are only applicable to a social landlord that is a public benefit entity as defined by FRS 102.

A combination that is in substance a gift

- 7.8 A combination that is in substance a gift is defined in FRS 102 as ‘*a combination carried out at nil or nominal consideration that is not a fair value exchange but in substance the gift of one entity to another*’. These transactions shall be accounted for in accordance with Section 19 *Business Combinations and Goodwill* of FRS 102, except that any excess of fair value of the assets received over the fair value of the liabilities assumed is recognised as income within the Statement of Comprehensive Income, or any excess of fair value of the liabilities assumed over the fair value of the assets received is recognised as an expense within the Statement of Comprehensive Income in the year of the transaction, as it represents the gift of the value of one entity to another, as set out in Section 34 *Specialised Activities*, paragraphs PBE34.78 and PBE34.79 of FRS 102.

Mergers

- 7.9 The definition of a merger is set out in FRS 102 as ‘*an entity combination that results in the creation of a new reporting entity formed from the combining parties in which the controlling parties of the combining entities come together in a partnership for the mutual sharing of risks and benefits of the newly formed entity and in which no party to the combination in substance obtains control over any other, or is otherwise seen to be dominant*’. All of the following criteria must be met for a combination to meet the definition of a merger:
- (a) *No party to the combination is portrayed as either acquirer or acquiree either by its board or management or by that of another party to the combination.*

- (b) *There is no significant change to the classes of beneficiaries of the combining entities or the purpose of the benefits provided as a result of the combination.*
 - (c) *All parties to the combination, as represented by the members of the board, participate in establishing the management structure of the combined entity and in selecting the management personnel, and other such decisions are made on the basis of a consensus between the parties to the combination rather than purely by the exercise of voting rights.'*
- 7.10 Unless it is not permitted by the statutory framework under which a public benefit entity reports (see paragraph PBE 34.80 and Appendix III, paragraph A3.30A of FRS 102), an entity combination that is a merger shall apply merger accounting. Paragraphs PBE 34.82 to PBE 34.86 of FRS 102 set out the accounting and disclosure requirements when accounting for public benefit entity combinations using merger accounting.

Chapter 8

Leases

- 8.1 Section 20 *Leases* of FRS 102 sets out the accounting requirements for leases, including leases of right-of-use assets in a sublease, as set out in paragraphs 20.1 to 20.4 of FRS 102, except for:
- (a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;
 - (b) leases of biological assets within the scope of Section 34 *Specialised Activities* of FRS 102 held by a lessee;
 - (c) service concession arrangements within the scope of Section 34 of FRS 102;
 - (d) licences of intellectual property granted by a lessor within the scope of Section 23 *Revenue from Contracts with Customers* of FRS 102;
 - (e) rights held by lessees under licensing arrangements within the scope of Section 18 *Intangible Assets other than Goodwill* of FRS 102 for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights; and
 - (f) leases that could lead to a loss to the lessor or the lessee as a result of non-typical contractual terms.
- 8.2 At the inception date determining whether an arrangement is, or contains a **lease**, shall be based on the substance of the arrangement and requires an assessment of whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A social landlord shall follow the requirements of paragraphs 20.15 to 20.36 of FRS 102 for identifying a lease.
- 8.3 In some circumstances, a social landlord may hold a lease as a lessee but the asset is used by another group entity. Consideration will be required as to whether the use of the asset by the other group entity meets the definition of a

lease as set out in this SORP. This may result in assets and liabilities being recognised by the social landlord and the other group entity that require elimination on consolidation.

Lessee

- 8.4 Where a social landlord identifies it is a lessee in a lease contract, it shall recognise a right-of-use asset and a lease liability, subject to certain exemptions set out in Section 20 *Leases* of FRS 102. Paragraphs 20.45 to 20.85 of FRS 102 provide details on the method to be applied in recognising a right-of-use asset on the balance sheet.
- 8.5 Social landlords should carefully consider arrangements where they are **managing agents** of assets as such arrangements may meet the definition of a lease under Section 20 *Leases* of FRS 102, making the social landlord a lessee.

Example 1

A social landlord enters into a contract to act as managing agent of a housing property. Under the arrangement, the social landlord is required to pay over all rents received, net of costs incurred associated with the use of the property, to the property owner in return for receiving a management fee. As there is no consideration paid by the managing agent for the use of a defined asset the arrangement between the social landlord and the property owner is not considered to meet the definition of a lease.

Example 2

A social landlord enters into a contract to act as managing agent of a housing property. Under the arrangement, the social landlord retains all rents received and incurs costs associated with the use of the property and pays a management fee to the property owner. The payment by the social landlord to the property owner may be considered to be consideration in exchange for the right to use the underlying assets (the housing property) for a period of time defined by the agreement and such arrangements between the social landlord and the property owner could meet the definition of a lease.

- 8.6 Paragraph 20.74 of FRS 102 requires right-of-use assets be either presented or disclosed separately from other assets. This SORP requires all right-of-use be disclosed separately in the notes from other assets. Therefore, in the statement of financial position all right-of-use assets are included within the same line item as that within which the corresponding **underlying assets** would be presented if they were owned and social landlords disclose in the notes which line items in the statement of financial position include those right-of-use assets.

- 8.7 Where a social landlord has determined that the lease term is 12 months or less, then this SORP requires a social landlord takes the recognition exemption permitted by paragraph 20.5(a) of FRS 102 (for short term leases).

Agreements at less than market rent

- 8.8 Social landlords may enter into agreements where assets are made available to the social landlord for significantly less than market rent (for example, some **peppercorn leases**). Such agreements will generally relate to a housing property, although there may be instances where other assets are provided for the use of the social landlord. In paragraphs 8.9 to 8.14 of this SORP the term "agreement" means an arrangement where housing properties are made available for use by the social landlord for significantly less than market rent. In those arrangements, the social landlord is provided with incoming resources from a government grant or a non-exchange transaction.
- 8.9 Social landlords shall use their judgement to determine whether any such agreement is or contains a lease, defined by FRS 102 as '*A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration*'. As part of this determination, a social landlord needs to contemplate if the consideration in the contract is substantive. Where this is not the case, the agreement may not be a lease.

Example 1

A social landlord enters into an agreement where the lessor has agreed to a significantly reduced rental payment on a housing property. The payments are around 50% of the market rate for a similar property.

As the consideration is substantive, if the agreement meets the other elements of the definition of a lease it is recognised in accordance with paragraph 8.10 of this SORP.

Example 2

A social landlord enters into an agreement to pay one peppercorn per year as rent on a housing property.

As the consideration is not substantive, the agreement is not considered a lease under paragraph 8.9 of this SORP and is recognised in accordance with paragraphs 8.11 to 8.13 of this SORP.

- 8.10 There a social landlord has determined that the agreement constitutes a lease, a social landlord shall determine the value of the government grant or non-exchange transaction in accordance with Section 24 *Government Grants* or paragraphs PBE34.73 to PBE34.73B of FRS 102 respectively. The agreement is accounted for in accordance with Section 20 of FRS 102 and

such amounts form part of the cost of the right-of-use asset.

- 8.11 Where a social landlord has determined that the agreement does not constitute a lease, a social landlord shall determine the value of the government grant or non-exchange transaction in accordance with Section 24 *Government Grants* or paragraphs PBE34.73 to PBE34.73B of FRS 102 respectively. Section 20 of FRS 102 does not apply to the agreement.
- 8.12 Where a social landlord has identified agreements in paragraph 8.9 above, consideration of the substance of the agreement is required to determine whether the agreement constitutes a donated asset, facility or service. Such considerations may include the period over which the social landlord has access to the asset, facility or service and whether the period of use covers the remaining useful life of the asset.
- 8.13 Where a social landlord considers an agreement identified in paragraph 8.9 of this SORP contains a donated facility or service, it shall recognise an expense with the corresponding income recognised in accordance with Section 24 *Government Grants* or paragraphs PBE 34.73 to PBE 34.73B of FRS 102. In the case of government grants, paragraph 11.8 of this SORP specifies whether a social landlord applies the accruals or performance model in accounting for a government grant.
- 8.14 Where a social landlord considers an agreement identified in paragraph 8.8 of this SORP contains a donated asset, it shall recognise an asset following the classification requirements of Chapter 6 of this SORP with the corresponding income recognised in accordance with Section 24 *Government Grants* or paragraphs PBE 34.73 to PBE 34.73B of FRS 102. In the case of government grants, paragraph 11.8 of this SORP specifies whether a social landlord applies the accruals or performance model in accounting for a government grant.
- 8.15 Where a social landlord has identified agreements in 8.8 above, this SORP requires that a social landlord takes a recognition exemption for leases for which the underlying asset is of low value, as permitted by paragraph 20.5 of FRS 102, when it is available for that agreement.
- 8.16 The references in paragraphs 8.8 to 8.14 of this SORP to non-exchange transactions and paragraphs PBE 34.73 to PBE 34.73B of FRS 102 are only applicable to a social landlord that is a public benefit entity as defined by FRS 102.

Lessor

- 8.17 Paragraphs 20.15 to 20.36 of FRS 102 set out requirements for determining whether an arrangement is or contains a lease. Social landlords should carefully consider arrangements where they are managing agents of assets

and the social landlord is a lessee (see paragraph 8.5 of this SORP). In such arrangements, a subsequent agreement between the social landlord and a tenant may also meet the definition of a lease under Section 20 Leases of FRS 102, making the social landlord a lessor.

Example

A social landlord enters into a contract to act as managing agent of a housing property where the arrangement between the social landlord and the property owner is a lease and the social landlord is a lessee. The social landlord is responsible for any subsequent tenancies, retaining all rents received and paying associated costs and those arrangements between the social landlord and the tenant(s) may be subleases.

- 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 social landlord is an intermediate lessor (that is, the social landlord is a lessee and enters into a sublease as a lessor for the same underlying asset) and issues a sub-lease with a period close to that of the head lease that sublease 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 FRS102.
- 8.19 Paragraphs 20.106 to 20.113 of FRS 102 set out the accounting and disclosure requirements for operating leases, and in applying these paragraphs to rental agreements for tenanted social housing properties, a social landlord must:
- include the housing properties in the statement of financial position based on the nature of the asset as set out in Section 6 *Housing properties* of this SORP,
 - recognise the rental income from the lease arrangements as income in the Statement of Comprehensive Income on a straight-line basis (unless the criteria in 20.106(a) and 20.106(b) of FRS 102 apply)
 - recognise as expenditure in the Statement of Comprehensive Income any costs incurred in earning the lease income, for example depreciation and maintenance costs.

Disclosures

- 8.20 The accounting and disclosure requirements for shared ownership

agreements are set out in Chapter 6 *Housing properties* of this SORP.

8.21 FRS 102 sets out the disclosure requirements for leases as follows:

- (a) disclosures in the financial statements of the lessee (paragraphs 20.76 to 20.85)
- (b) general lease disclosures in the financial statements of the lessor (paragraphs 20.114 to 20.116)
- (c) **finance leases** in the financial statements of the lessor (paragraphs 20.117 to 20.118)
- (d) **operating leases** in the financial statements of the lessor (paragraphs 20.119 to 20.121).

8.22 Paragraph 20.121 of FRS 102 requires that '*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*'. This SORP requires a social landlord to disclose the assumptions underlying the amounts disclosed in applying paragraph 20.121 of FRS 102.

Example disclosure to satisfy paragraph 20.121 of FRS 102

Y/E 31.03.20X6

20X7	20X8	20X9	20Y0	20Y1	Onwards
£'000	£'000	£'000	£'000	£'000	£'000
770	791	812	834	857	31,173

Assumptions:

- Disclosure made on portfolio basis
- Rental income in 20X6 of £750,000 (taken from the relevant note in the financial statements)
- Annual rent increase of CPI Annual Rate +1%, where CPI Annual Rate is taken at the reporting date and assumed to be consistent throughout period [in this example, the CPI Annual Rate is 4% therefore annual rent increases of 5% have been applied]
- A reduction in income to account for the termination of existing leases at a rate of 2% per year
- Estimation of amounts receivable beyond 20Y1 have been made to the end of the 30-year business plan period applying CPI+1% annual rental increase rate and the current void rate as a proxy for termination of leases in the period

Chapter 9

Provisions and contingencies

- 9.1 This section provides a summary of the requirements of Section 21 *Provisions and Contingencies* of FRS 102. The Appendix to that section provides specific examples which may assist social landlords in applying the guidance and requirements of that section of FRS 102 and this SORP.
- 9.2 A social landlord shall recognise a provision only when:
- (a) there is 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.
- 9.3 Section 21 of FRS 102 uses the term 'liability' in a way that differs in some respects from the definition of a **liability** in Section 2 *Concepts and Pervasive Principles* of FRS 102. For the purposes of Section 21 of FRS 102 and this Chapter of the SORP, a liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
- 9.4 The provision shall be recognised as a liability in the Statement of Financial Position and as an expense in the Statement of Comprehensive Income, unless another section of FRS 102 requires the cost to be recognised as part of the cost of an asset such as inventory (stock) or property, plant and equipment (tangible assets).
- 9.5 A social landlord can have a legal obligation, enforceable by law, or a **constructive obligation** because the past event has created valid expectations in other parties that the entity will discharge the obligation. The condition in paragraph 21.4(a) of FRS 102 *means that the entity has no realistic alternative to settling the obligation*. A provision shall not be recognised for obligations that will arise from future actions, no matter how likely they are to occur and even if they are contractual. For example, a

provision for future planned and routine maintenance of housing properties controlled by the social landlord shall not be recognised. This is illustrated in paragraph 21.6 of FRS 102 which states '*because of commercial pressures or legal requirements, an entity may intend or need to carry out expenditure to operate in a particular way in the future*' (for example fitting new bathrooms to meet the Decent Homes Standard or replacing cladding to comply with Building Safety laws). Because the social landlord can avoid the future expenditure by its future actions, for example by selling the property, it has no present obligation for that future expenditure and no provision is recognised. Paragraph 21.11C of FRS 102 provides detailed guidance on providing for the costs of **restructuring**, where a social landlord shall only recognise a provision for these costs when there is a constructive obligation.

- 9.6 The value of the provision shall be the best estimate of the amount required to settle the obligation at the reporting date, as set out in paragraph 21.7 of FRS 102.
- 9.7 Paragraphs 21.8 and 21.9 of FRS 102 provide further guidance on the measurement of a provision when considering the disposal of an asset or where the settlement of a provision may be reimbursed by another party, for example through an insurance claim. The requirements for the subsequent measurement of a provision are set out in paragraphs 21.10 and 21.11 of FRS 102.
- 9.8 Section 21 *Provisions and Contingencies* of FRS 102, also addresses the following:
- (a) **onerous contracts** (paragraph 21.11A of FRS 102)
 - (b) future operating losses (paragraph 21.11B of FRS 102)
 - (c) restructuring (paragraphs 21.11C and 21.11D of FRS 102)
 - (d) **contingent liabilities** (paragraph 21.12 of FRS 102)
 - (e) **contingent assets** (paragraph 21.13 of FRS 102)
- 9.9 FRS 102 sets out definitions of the terms probable, contingent liabilities and contingent assets in its glossary which are reproduced in the glossary of this SORP.

Future costs necessary to meet regulatory obligations

- 9.10 Certain laws or regulations may require a social landlord to carry out work on its properties. Examples of such laws and regulations 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.

Shared ownership model – essential repairs

- 9.12 The sale of the first tranche of a shared ownership property under a lease with specific repair obligations for the social landlord or availability of repair allowances is considered to be an obligating event for the purpose of recognising a provision in accordance with Section 21 *Provisions and Contingencies* of FRS 102. A social landlord taking on such repair obligations of another social landlord by way of a purchase or stock swap of housing properties is also considered to be an obligating event.

Initial recognition and measurement

- 9.13 A social landlord should consider the probability of repairs, for which the social landlord is obligated to settle under the lease, occurring.
- 9.14 Social landlords should consider all reasonably possible outcomes including, but not limited to:
- (a) there are no repairs required in the stipulated repair period which are not covered by the building warranty or any other guarantee;
 - (b) Shared owners do not utilise their allowance for repairs; and
 - (c) the shared owner reaches 100% ownership and the repair period expires before the full obligation period ends.
- 9.15 If it is considered probable that there will be an outflow of economic benefit and that outflow can be reliably estimated, a provision for the best estimate of the amount required to settle the obligation shall be recognised as a provision and as a cost of the sale (at point of first tranche disposal).
- 9.16 If it is not considered probable that a payment is likely to arise a contingent liability will exist which will require disclosure unless the possibility of any outflow of resources is remote. Disclosure shall be made in accordance with paragraph 21.15 of FRS 102.

Subsequent measurement

- 9.17 A social landlord shall review the provision at each reporting date and adjust it to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. For example, that reassessment should take into account:
- events or work on the property that have happened since the last review that impact the estimate of future costs over the remainder of the repair obligation period;
 - if the social landlord's obligation to pay for certain repairs is capped to a specific amount or up to a specific point in time; and
 - the extent to which unutilised repair allowances can be carried over for use in future years.
- 9.18 Where a social landlord no longer has an obligation, the provision will be released to the Statement of Comprehensive Income. For example, this may occur due to the housing property being fully staircased within the repair obligation period, or due to the shared ownership property and associated repair obligation being transferred to another social landlord by way of sale or stock swap.

Disclosures

- 9.19 Paragraphs 21.14 to 21.17A of FRS 102 set out the disclosure requirements for provisions and contingencies.

Chapter 10

Income

- 10.1 Social landlords may have income arrangements that are within, or partially within, the scope of different sections of FRS 102. For example:
- Section 23 *Revenue from Contracts with Customers* of FRS 102;
 - Section 20 *Leases* of FRS 102; and
 - Section 34 *Specialised Activities* of FRS 102.
- 10.2 Chapter 10 *Income* of this SORP includes requirements for some income transactions relevant to social landlords. This chapter does not apply to incoming resources from **non-exchange transactions**, which are set out in Chapter 15 *Specialised activities* of this SORP. Section 23 *Revenue from Contracts with Customers* of FRS 102 applies to contracts with customers, except for leasing arrangements and other arrangements specified in paragraph 23.1 of FRS 102. Where this SORP does not include requirements, social landlords shall use applicable section of FRS 102.

Rent and service charges

- 10.3 For all social landlords, income should include rent and service charges receivable. Rent and service charges that are not received due to voids (i.e. housing properties that are unoccupied) are not recognised as income.
- 10.4 Rent and service charge losses from bad debts should be included within operating costs and disclosed in accordance with guidance on operating costs contained within the relevant accounting direction/determination/order issued by the appropriate regulator. The requirements vary depending on the size of the social landlord and the range and level of activities undertaken.

Rental income

- 10.5 Social landlords shall recognise rental income derived from leasing

arrangements outlined in paragraphs 8.17 to 8.19 of this SORP under Section 20 *Leases* of FRS 102.

- 10.6 Rental income derived from leasing arrangements outlined in paragraphs 8.17 to 8.19 of this SORP shall be recognised in accordance with paragraphs 20.106 to 20.111 of FRS 102, which requires lease payments to be recognised on a straight-line basis, unless either:
- (a) another systematic basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished; or
 - (b) 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.
- 10.7 This SORP considers that in the majority of cases the most appropriate basis for recognising rental income is a straight-line basis over each rent period. Where a social landlord considers another systematic basis to be more representative, this shall be disclosed in accounting policies.
- 10.8 Where rental payments are received in advance of rental income being recognised in income, rental payments received that relate to a future period are recognised as deferred income in the Statement of Financial Position.

Service charges

- 10.9 Where a leasing agreement outlined in paragraphs 8.17 to 8.19 of this SORP includes both rental income and service charges (either variable or fixed), the service charges are considered to be a non-lease component. A social landlord shall account for non-lease components separately and shall allocate the consideration in the leasing agreement between the components by applying paragraphs 23.65 to 23.77 of FRS 102.
- 10.10 The stand-alone selling price is the price at which an entity would sell a good or service promised in a contract separately to a customer. In the case of service charges, the stand-alone selling price is unlikely to be directly observable and the social landlord should estimate it using the expected cost plus a margin approach. Paragraph 23.65 of FRS 102 requires a social landlord to allocate the transaction price to the performance obligations in the contract on a relative stand-alone selling price. In the case of service charges, the stand-alone selling price should be determined as the amount the social landlord is entitled to charge and comprises:
- (a) the expected costs of services (e.g. cleaning and maintenance of communal areas); and
 - (b) any management and other charges.

- 10.11 The service charge component should be accounted for in accordance with Section 23 of FRS 102. Paragraphs 23.81 to 23.84 of FRS 102 set out requirements to be applied in determining whether performance obligations are satisfied over time. A social landlord should determine that performance obligations for service charges are satisfied over time.
- 10.12 After contract inception, the social landlord's estimate of the consideration of the leasing agreement may change. For example, an estimate of a variable service charge may be updated to reflect known actual costs. A social landlord shall account for changes in the estimate of the transaction price in accordance with paragraphs 23.75 to 23.77 of FRS 102.
- 10.13 Where there has been an under-recovery of leaseholders' or tenants' variable service charges, a social landlord should not include that amount in the transaction price, or therefore as revenue or a trade receivable, unless the social landlord's customary business practice is to seek to recover those amounts.

Service charge sinking funds and service costs

- 10.14 Operating a sinking fund (or other similar fund) is not in of itself a distinct performance obligation. Contributions received relating to sinking funds (or other similar funds) are a mechanism for collecting the transaction price associated with certain performance obligation in the rental contract in advance and should only be recognised in income when the specific performance obligation is satisfied. For example, where a sinking fund is accumulated to replace windows in a development, the income should be recognised when (or as) the windows are installed and carried as deferred income in the Statement of Financial Position until that time.
- 10.15 Unutilised contributions to service charge sinking funds and over-recovery of service costs which are repayable to tenants or leaseholders or are intended to be reflected in reductions to future service charge contributions should be recognised as a liability within creditors in the Statement of Financial Position and disclosed separately in the notes to the financial statements. The amount included in liabilities in respect of service charge sinking funds should include any interest credited to the fund.
- 10.16 Debit and credit balances on individual schemes shall not be aggregated unless there is a right of set-off.

Properties with other managing agents

- 10.17 Where a social landlord has ownership of housing properties but also has an agreement with a third party to manage those housing properties (including government funded schemes or services), the social landlord shall determine whether the social landlord has a contract with the managing agent and / or a contract directly with the tenant.

- 10.18 Considerations in this determination could be:
- (a) Who has responsibility for housing management matters, including the setting of rents and charges and who bears all void and bad debt losses?
 - (b) Who has responsibility for all other grants and contracts, and bears the associated risk?
 - (c) Who has control over the expenditure on services provided?
 - (d) Where there are arrangements in place for reimbursement of any shortfall in income over expenditure for the scheme, who would be responsible for making such a payment?
- 10.19 Where it is concluded that the social landlord has a contract with the managing agent, a social landlord shall consider whether the contract meets the definition of a lease. Where the contract does not meet the definition of a lease, income shall be recognised in accordance with Section 23 of FRS 102 and where it is concluded that the social landlord has a contract directly with the tenant or the contract with the management agent meets the definition of a lease, the social landlord shall recognise income as a leasing arrangement in accordance with paragraphs 10.5 to 10.16 of this SORP.

Disposal proceeds of housing properties classified as inventory (stock)

- 10.20 The disposal proceeds of housing properties classified as inventory (stock), such as properties developed for outright sale, or shared ownership first tranche sales is accounted for as income in the Statement of Comprehensive Income of the period in which the disposal occurs and should be recognised at legal completion.
- 10.21 Where a social landlord receives a non-refundable deposit from a customer. Paragraphs 23.29 to 23.30 of FRS 102 require that such amounts are recognised in liabilities in the Statement of Financial Position until the promised good is transferred, i.e. legal completion.

Disclosure

- 10.22 All social landlords shall include disclosures in accordance with the requirements of FRS 102, including but not limited to Section 23 *Revenue* from contracts with customers and Section 20 *Leases*.
- 10.23 In addition, this SORP requires disclosure of revenue and its components be included in the notes to the financial statements as required by the relevant accounting direction / determination / order issued by the appropriate regulator. The requirements may vary depending on the size of the social

landlord and the range and level of activities undertaken.

Chapter 11

Grants

- 11.1 This section sets out the requirements on accounting for government grants and other grants.

Other grants

- 11.2 Where the social landlord is a PBE, grants received from non-government sources must be recognised using the performance model as set out in paragraph 11.13 of this SORP in accordance with paragraphs PBE34.64 to PBE34.74 of FRS 102 (Incoming Resources from Non-Exchange Transactions).

Government grants

- 11.3 Section 24 of FRS 102, *Government Grants*, sets out the accounting requirements for all **government grants**.
- 11.4 A government grant is assistance by the Government 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.
- 11.5 Government grants exclude those forms of government assistance that cannot reasonably have a value placed upon them and transactions with the Government that cannot be distinguished from the normal trading transactions of the entity.
- 11.6 Social landlords receive a range of grants from government agencies such as Homes England, local authorities, devolved government agencies and health authorities which meet the definition of government grants and therefore must be accounted for in accordance with Section 24 of FRS 102, *Government Grants*, and this SORP.

Recognition and measurement of government grants

- 11.7 Government grants, including non-monetary grants, shall not be recognised until there is reasonable assurance that:
- (a) the social landlord will comply with the conditions attached to them; and
 - (b) the grant will be received.
- 11.8 Section 24 of FRS 102, *Government Grants*, permits either the performance model or the accrual model to recognise government grants. This SORP requires that:
- (a) A social landlord which accounts for its housing properties at cost must recognise government grants using the accrual model set out in paragraphs 11.16 to 11.21 of this SORP.
 - (b) A social landlord which accounts for its housing properties at valuation must recognise government grants using the performance model set out in paragraph 11.13 of this SORP.
- 11.9 The majority of government grant received by social landlords is to enable the delivery of social housing, and therefore there is an ongoing linkage between the cost of constructing or acquiring housing property and the government grant. Where housing properties are measured at cost the accrual model for recognising the associated grant reflects the substance of the overall transaction as the grant is matched to the life of the asset.
- 11.10 Government grant received by social landlords is partly intended to compensate for the fall in value that often occurs when a property is constructed and then applied for social housing purposes. Consequently, using the performance model where housing properties are measured at valuation is considered more appropriate as the outcome of the fall in value for which the grant is compensating has already been reflected in the valuation. In these circumstances, this SORP considers that applying the accrual model and carrying forward the unamortised grant as a liability would be double counting.
- 11.11 Government grants shall be measured at the fair value of the asset received or receivable. For social landlords, this will usually equate to the cash received or receivable. Where a social landlord receives a non-monetary asset from the Government, for example land from a local authority for consideration less than the asset's market value, a social landlord shall follow the requirements of paragraphs 11.22 to 11.23 of this SORP.
- 11.12 Where government grants are recognised within income (using either the performance model or the accrual model) this should be presented as part of 'Income' in the Statement of Comprehensive Income.

Performance model

- 11.13 A social landlord applying the performance model shall recognise grants as

follows:

- (a) A grant that does not impose specified future **performance-related conditions** on the recipient is recognised as income when the grant proceeds are received or receivable.
- (b) A grant that imposes specified future performance-related conditions on the recipient is recognised as income only when the performance-related conditions are satisfied.
- (c) A grant received before the performance-related conditions are satisfied is recognised as a liability.

Performance-related conditions

- 11.14 Where government grant is provided to a social landlord to construct and maintain social housing there is a distinction between conditions attached to the asset as it is being developed and the **restrictions** on the use of the asset once it is developed.
- 11.15 Where there are conditions attached to the asset as it is being developed, for example when a grant is provided for the construction of housing properties within a specific scheme, then the performance-related condition is met when the construction of the housing properties is complete. The ongoing restriction on the use of the asset, for example that it is used in the provision of social housing, is not considered to be a performance-related condition.

Accrual model

- 11.16 A social landlord applying the accrual model shall classify grants either as a grant relating to revenue or a grant relating to assets.
- 11.17 Grants relating to revenue shall be recognised in income on a systematic basis over the period in which the social landlord recognises the related costs for which the grant is intended to compensate. For example, grants may be received by social landlords to support repairs to housing properties or to provide funding for any supported living or care schemes.
- 11.18 A grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised as revenue in the period in which it becomes receivable.
- 11.19 Grants relating to assets shall be recognised in income on a systematic basis over the expected useful life of the asset. Government grants received for housing properties should be recognised in income either:
 - (a) over the expected useful life of the housing property structure (not land and structure), even if the fair value of the grant exceeds the carrying value of the structure in the financial statements; or
 - (b) over the useful life of the housing property structure and its individual

components (excluding land) on a pro rata basis.

- 11.20 In the case of grants received specifically for components of a housing property, for example where a social landlord receives funding for replacement of boilers, the grant should be recognised in income over the expected useful life of the component.
- 11.21 Social landlords who receive funding to compensate for a negative stock transfer value attributed to the housing stock transferred to them from a local authority must consider the purpose of the grant funding in determining the recognition of the grant receipt. If the funding is received to fund a repair and improvement programme which replaces housing property components, the grant funding should be recognised over the life of the component assets to which it relates. If the funding is received to fund future losses, then it should be recognised in accordance with paragraph 11.13 of this SORP.

Donation or acquisition of land or other asset at below market value

- 11.22 Where a social landlord receives a donation of land and/or other asset or acquires land and/or other asset at below its market value from a government source, for example a local authority, this is considered by this SORP to be in substance a non-monetary government grant.
- 11.23 The difference between the fair value of the asset donated or acquired and the consideration paid for the asset must be recognised in accordance with paragraph 11.7 of this SORP. The terms of the donation or acquisition are considered to be performance-related conditions.

Disposal of government grant-funded assets

- 11.24 On disposal of an asset or component for which government grant was received by the social landlord, if there is no obligation to repay the grant, any unamortised grant remaining within liabilities in the Statement of Financial Position related to that asset is derecognised as a liability and recognised as income in the Statement of Comprehensive Income.
- 11.25 Government grants may have a requirement to repay or recycle the grant on disposal of the asset for which it was originally given. Paragraphs 11.26 to 11.29 of this SORP set out the accounting requirements for these circumstances.

Recycling of grants

- 11.26 Where there is a requirement to either repay or recycle a grant received for an asset that has been disposed of (typically this will apply on disposal of a

housing property), a liability must be included in the Statement of Financial Position to recognise this obligation.

- 11.27 The liability must be measured at the best estimate of the amount required to settle the obligation based on the relevant guidance on grant accounting applicable to the social landlord and the grant agreement.
- 11.28 When the social landlord receives approval from the funding body to recycle the grant the social landlord must begin to account for the grant in accordance with paragraph 11.7 of this SORP.
- 11.29 For shared ownership **staircasing** sales, when full staircasing has not taken place, the recycling of the grant may be deferred if the net sales proceeds are insufficient to meet the grant obligation relating to the disposal and therefore would not be recognised as a liability. On subsequent staircasing sales, the requirement to recycle the grant becomes an obligation if sufficient sales proceeds are generated to meet the obligation and a liability must be recognised at this point.

Recycling of grants

This example assumes housing properties are accounted for at cost in the Statement of Financial Position and government grants are recognised using the accrual model. Government grant is amortised over the life of the structure of the housing property.

Consider a social landlord with a March year end which first lets a scheme on 1 April 2018 and subsequently disposes of it on 1 April 2026. At 31 March 2026, the following is included in the financial statements for the housing properties in the scheme:

	Cost	Accumulated Depreciation	NBV	Useful economic life
	£'000	£'000	£'000	
Land	4,000	0	4,000	
Structure	3,000	240	2,760	100 years
Kitchens	1,000	320	680	25 years
Bathrooms	1,000	320	680	25 years
Roofs	500	133	367	30 years
Boilers	500	200	300	20 years
	<u>10,000</u>	<u>1,213</u>	<u>8,787</u>	

Government grant received for the scheme is £4m which is amortised over 100 years (this being the life of the housing property structure).

As at 31 March 2026 the following is included in the financial statements for the government grant received:

	£'000
Deferred income – unamortised grant	3,680
Grant amortised to the Statement of Comprehensive Income	320 (8 years)

On disposal of the housing properties, proceeds of £10m are received and there is an obligation for the government grant to be recycled or repaid. The value of this obligation is measured as the full amount of the original grant received of £4m. The grant that has been recognised within income over the last 12 years of £320k is part of the net disposal proceeds and therefore is deducted in arriving at any profit on disposal of the asset.

The double entry on disposal during the financial year ending 31 March 2026 is as follows:

		£'000	
Dr	Cash	10,000	Proceeds of sale
	Property, plant and equipment	8,787	Net book value of the housing properties
Cr	(fixed assets)		
Cr	Profit on disposal of asset	893	
Cr	Recycled grant liability	320	
Dr	Deferred Income	3,680	Reclassifying the deferred income as a recycled grant liability
Cr	Recycled grant Liability	3,680	

Disclosures

- 11.30 The disclosure requirements for government grants are set out in paragraphs 24.6 and 24.7 of FRS 102. The financial statements must clearly state the accounting policy applied to the recognition of government grants.
- 11.31 In meeting the requirements of paragraph 24.6(b) of FRS 102, this SORP requires that the following disclosures are included within the notes to the financial statements:
- (a) The amount of government grant recognised within the Statement of Comprehensive Income in the financial year
 - (b) The amount of government grant included within the Statement of Financial Position.

Chapter 12

Impairment of assets

- 12.1 This section sets out the considerations for social landlords in assessing impairment of assets, which is dealt with in Section 27 *Impairment of Assets* of FRS 102.
- 12.2 Social landlords hold a range of assets, including properties held for their social benefit. The principles to be applied in assessing whether a property is held for its social benefit are set out in paragraphs 6.4 to 6.6 of this SORP. This SORP considers that properties held for their social benefit are not held solely for the cash inflows they generate and that they are held for their **service potential**. Where property is not held for its service potential the provisions of this section in respect of estimating the service potential of the property cannot be applied in the measurement of impairment.
- 12.3 The following section focuses on the considerations for impairment of properties held for social benefit. A social landlord may hold other non-property assets for their service potential. If the intended use of the non-property asset is to provide a service to the residents of social housing and this is the primary purpose of the asset, then the principles relevant to properties held for their social benefit as set out in this section of the SORP are equally applicable to such assets.
- 12.4 For guidance on impairment of other assets, Section 27 *Impairment of Assets* of FRS 102 should be referred to. That section of FRS 102 is applicable in assessing the impairment of all assets other than those highlighted in paragraph 27.1 of FRS 102 which includes the following that may be particularly relevant to social landlords:
- (a) Contract assets and assets arising from costs to obtain or fulfil a contract (see Section 23 of FRS 102, *Revenue*); and
 - (b) Investment properties (see Section 16 of FRS 102, *Investment Property*).

Introduction

- 12.5 A social landlord shall assess whether an indicator of impairment exists at each reporting date. If such an indicator exists, a social landlord shall carry out an impairment assessment and estimate the recoverable amount of the asset or cash- generating unit. Where a social landlord has performed an appraisal of a development programme or scheme which was approved by the board and completed, in all material respects, in accordance with these plans, there is no requirement to perform an impairment assessment on the initial recognition of the development programme or scheme. This includes the situation where a social landlord develops properties for their service potential within its own business or where it acquires properties for their service potential from a third party, as the cost is the initial estimate of the properties' service potential.

Indicators of impairment

- 12.6 A social landlord shall assess at each reporting date whether there is any indicator of impairment. Paragraph 27.9 of FRS 102 sets out the indicators of impairment for assets other than inventories that shall, as a minimum, be considered by a social landlord. A social landlord should also consider whether there is any indicator of impairment where there is a material change to a development programme or scheme, for example when there is a change in the planned use of the properties or a change in the way the properties are to be managed. A material change or impact would be one that affects the current and future service potential of a development programme or scheme. The indicators of impairment in paragraph 27.9 of FRS 102 are not repeated in this SORP, however this SORP considers that the most common indicators relevant to a social landlord would be:
- (a) A contamination or other similar issue that was not identified as part of the planning of a development which results in a material increase in development costs. For example, the identification of asbestos which requires material additional expenditure for removal of the asbestos in order to complete the development.
 - (b) A change in government policy, regulation or legislation which has a material detrimental impact on the development programme or scheme. For example, a change in health and safety legislation resulting in a material increase in expenditure incurred to ensure compliance with the new regulations or a change to the rent regime which has a material impact on the net income that is expected to be collected (i.e. the rental income less relevant expenditure) for a social housing property.

- (c) A change in demand for a property that is considered irreversible. For example, a material increase in the level of voids exceeding those originally forecast and which is not anticipated to reverse in future periods without material additional expenditure being incurred.
 - (d) A material reduction in the market value of properties in those circumstances where assets are intended or expected to be sold or where the occupant has the right to purchase under shared ownership arrangements.
 - (e) Obsolescence of a property, or part of a property, for example where it is probable that a plan to regenerate existing properties by demolishing them or replacing components of existing properties will go ahead.
 - (f) Plans to dispose of an asset before the previously expected date.
- 12.7 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.
- 12.8 This is not intended to be an exhaustive list, and social landlords shall consider all of the indicators of impairment set out in paragraph 27.9 of FRS 102 as a minimum when assessing impairment of assets other than inventories. For social landlords holding inventory (stock) including properties classified as inventory (stock) the guidance on impairment is set out in paragraph 12.40 to 12.43 of this SORP.
- 12.9 These indicators of impairment may impact all social housing properties within a social landlord's property portfolio, or they may only impact a specific development programme, scheme or individual property. For example, a change in regulation or government policy is likely to impact all social housing properties, whereas a contamination issue is likely to impact a specific development or property only.
- 12.10 Paragraph 27.10 states that *'if there is an indication that an asset may be impaired, this may indicate that the entity should review the remaining useful economic life, the depreciation (amortisation) method or the residual value for the asset and adjust in accordance with the section of this FRS applicable to the asset (e.g. Section 17 Property, Plant and Equipment and Section 18 Intangible Assets other than Goodwill) even if no impairment loss is recognised for the asset.'*
- 12.11 Where an indicator of impairment exists, a social landlord shall perform an impairment assessment as follows:
- (a) determine the level at which an impairment is to be assessed (i.e. the

asset or **cash-generating** unit) in accordance with paragraphs 12.13 to 12.15 of this SORP;

- (b) estimate the recoverable amount of the asset or cash-generating unit in accordance with paragraphs 12.16 to 12.33 of this SORP;
 - (c) calculate the carrying amount of the asset or cash-generating unit in accordance with paragraph 12.34 of this SORP; and
 - (d) compare the carrying amount to the recoverable amount to determine if an impairment loss has occurred.
- 12.12 An impairment loss occurs when the carrying amount of an asset or cash generating unit exceeds its recoverable amount. This impairment loss shall be recognised in accordance with paragraph 12.35 to 12.36 of this SORP.

Determining the level at which properties held for their social benefit are assessed for impairment

- 12.13 A social landlord must first determine the level at which properties held for their social benefit are to be assessed for impairment in order to measure the recoverable amount; this can be an individual asset or cash-generating unit. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. On this basis this SORP considers it remote that a cash-generating unit would be all of a social landlord's social housing properties.
- 12.14 Cash inflows are inflows of cash and cash equivalents received from parties external to the social landlord. In identifying whether cash inflows from an asset (or group of assets) are largely independent of the cash inflows from other assets (or groups of assets), a social landlord should consider factors such as how management monitors business activities, (for example by regional areas, location of properties, type of activity, development programme, individual development scheme) or how management makes decisions about continuing or disposing of the assets and operations of the business.
- 12.15 The identification of a cash-generating unit involves judgement and the level at which a cash-generating unit is determined may change (see example 1 for further guidance).

Estimating the recoverable amount

- 12.16 Paragraphs 27.14 and 27.14A of FRS 102 states that the recoverable amount of an asset or cash-generating unit is the higher of its:

- (a) **value in use**; and
 - (b) **fair value** less costs to sell.
- 12.17 Where an indicator of impairment exists and an impairment assessment is being performed, it is not always necessary to estimate both the value in use and the fair value less costs to sell. If either of these amounts exceeds the carrying amount, then there is no impairment loss and it is not necessary to estimate the other amount.
- 12.18 The models set out below for estimating the recoverable amount of the asset or cash-generating unit are for the purposes of assessing impairment only. They are not to be used as measurement models to determine the fair value of a housing property asset where an accounting policy of revaluation is applied and the housing property is included in the Statement of Financial Position at valuation. In these circumstances, the guidance for the revaluation of housing property assets set out in Section 17 *Property, Plant and Equipment* of FRS 102 and paragraphs 6.36 to 6.44 of this SORP must be applied.

(a) Estimating value in use

- 12.19 Value in use is the present value of the future cash flows expected to be derived from the asset or cash-generating unit. However, paragraph 27.20A of FRS 102 states that *'for assets held for their service potential, a cash flow driven valuation (such as value in use) may not be appropriate. In these circumstances, value in use (in respect of assets held for their service potential) is determined by the present value of the asset's remaining service potential plus the net amount the entity will receive from its disposal. In some cases this may be taken to be costs avoided by possession of the asset. Therefore, depreciated replacement cost may be a suitable measurement model but other approaches may be used where more appropriate'*.
- 12.20 As noted in paragraph 12.2, this SORP considers that properties held for their social benefit are not held solely for the cash inflows they generate and that they are held for their service potential. Therefore, a social landlord should use **value in use (in respect of assets held for their service potential) (VIU-SP)** to estimate value in use for these assets, which is explained more fully in paragraph 12.22.
- 12.21 However, as a practical expedient, when an indicator of impairment exists, a social landlord may estimate the value in use of properties held for their social benefit based on the expected future cash flows of the asset or cash-generating unit as set out in paragraph 12.22. If this calculation estimates a recoverable amount that is higher than the carrying amount of the asset or cash-generating unit, there is no impairment loss, and the social landlord does not need to estimate the VIU-SP or fair value less costs to sell of the asset or

cash-generating unit. The calculation of value in use is a practical measurement technique that, in most cases, can be calculated from information that a social landlord already holds via a development appraisal or business plan and therefore is considered to be a more straightforward estimation technique than VIU-SP.

Value in use

- 12.22 If a social landlord chooses to calculate the value in use of properties held for their social benefit based on the expected future cash flows of the asset or cash-generating unit, this value shall be calculated in accordance with paragraphs 27.15 to 27.20 of FRS 102 which set out the detailed considerations and requirements for a present value calculation in this context and require the following steps:
- (a) estimating the future cash inflows and outflows to be derived from the continuing use of the asset and from its ultimate disposal
 - (b) applying the appropriate discount rate to those cash flows.
- 12.23 Social landlords shall apply an appropriate discount rate. Paragraph 27.20 of FRS 102 specifically requires that the discount rate(s) used in the present value calculation reflects the current market assessment of the time value of money and risks specific to the asset for which the future cash flow estimates have not been adjusted. This means that the discount rate must reflect the rate at which an individual social landlord would be able to secure finance for the development over a term commensurate with the length of the cash flows of the development rather than a social landlord's current average cost of borrowing.
- 12.24 Where a social landlord has received government grant for a housing property or scheme, any obligation to recycle or repay government grant on disposal of the property(ies) should be reflected in the present value calculation as it is a cash outflow linked directly to the ultimate disposal of the housing property.

Value in use (in respect of assets held for their service potential)

- 12.25 VIU-SP is an estimate of the value in use of an asset or cash-generating unit which takes into consideration the service potential of the asset or cash-generating unit and is not based purely on the cash flows generated. Whilst it is recognised that properties held for their social benefit do generate a cash flow, an estimation technique based purely on those cash flows does not reflect the value of the service potential of the asset or cash-generating unit to the social landlord.
- 12.26 Where there is an issue which results in properties held for their service potential being unable to be let in their current condition, for example demand uncertainty or a serious structural defect, this SORP considers it is likely that the properties are no longer providing the social landlord with any service

potential. In these circumstances the recoverable amount of such properties should be estimated by reference to its fair value less costs to sell or value in use, and not VIU-SP.

- 12.27 This SORP considers that depreciated replacement cost will provide a reasonable estimate of the VIU-SP for social housing properties in circumstances where the asset or cash-generating unit still provides some level of service potential. Depreciated replacement cost is defined in FRS 102 as 'the most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date.'
- 12.28 Depreciated replacement cost is the lower of the cost of constructing or acquiring a replacement asset(s) to provide the same level of service potential to the social landlord as the existing asset or cash-generating unit i.e. taking into account the impact of the impairment event. The cost of acquiring a replacement asset(s) could either be through purchasing an equivalent property on the open market or purchasing an equivalent property from another social landlord. This SORP considers that a social landlord is unlikely to be able to reliably measure the cost of purchasing an equivalent property from another social landlord unless there is an active market in place where it would be in a position to purchase an equivalent property that would provide a similar level of service from another social landlord at the financial reporting date. Therefore, this SORP considers in most circumstances that the depreciated replacement cost will be the lower of the cost of constructing an equivalent asset (s) or acquiring an equivalent asset (s) on the open market.
- 12.29 Where the lowest cost of replacing the asset(s) is identified as the cost of constructing an equivalent asset(s), this cost must include the cost of land as well as the estimated construction costs for the property. Where the social landlord owns the land and there is no indicator that it is impaired, the existing carrying value of the land, as measured in the social landlord's property, plant and equipment (tangible assets), on which the new property would be constructed, should be used in the calculation of the replacement cost. 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. For example, the cost should not include any additional costs incurred when the asset was originally built relating to problems or issues with the development.
- 12.30 Once this replacement cost is established it is then necessary to adjust (or depreciate) this cost. In this context, the adjustment made is to reflect the physical deterioration of the asset and any obsolescence (for example, where the design or specification of the asset no longer fulfils the function for which it

was originally designed). In practice this is similar to depreciation used for financial reporting purposes, but should not be assumed to be the same figure that has been recognised within expenditure as costs may differ, however the same principles can be applied.

- 12.31 In circumstances where a social landlord determines that depreciated replacement cost is not an appropriate estimation of VIU-SP, an alternative measurement model may be used to estimate VIU-SP provided it is relevant and can be reliably measured. This SORP requires that where any alternative measurement model is used, the social landlord discloses how the VIU-SP has been estimated, along with the rationale for using that alternative model.

(b) Estimating fair value less costs to sell

- 12.32 Paragraph 27.14 of FRS 102 sets out how to estimate fair value less costs to sell. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a housing property is an unadjusted quoted price for an identical or comparable asset in an active market at the measurement date. Where a social landlord has the freedom to sell a housing property on the open market, then the fair value less costs to sell will be equivalent to the market value of the property less the costs to sell (including any associated grant which is repayable).
- 12.33 Where a social landlord does not have the freedom to sell a housing property on the open market then fair value less costs to sell must be based on the best information available to reflect the price that would be received to sell the housing property in an orderly transaction between market participants at the measurement date. Relevant evidence to support this value could include the outcome of recent transactions of similar assets within the social housing sector, for example, the sales value achieved for social housing stock which has been transacted between social landlords within a similar area or region; or the highest of a number of competitive bids submitted for a specific scheme by different social landlords. The definition of **existing use value for social housing (EUV-SH)** in the RICS Valuation Standards indicates that this method of valuation would provide a fair value as defined in FRS 102 and therefore this could be the basis used to determine fair value of social housing properties.

Calculate the carrying amount

- 12.34 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.

Recognising and measuring an impairment loss for a cash-generating unit

- 12.35 An impairment loss shall be recognised for the asset or cash-generating unit if, and only if, the recoverable amount of the asset or unit is less than the carrying amount of the asset or cash-generating unit. Paragraphs 27.21 to 27.23 of FRS 102 set out how the impairment loss shall be allocated to the assets of a cash-generating unit.
- 12.36 The impairment loss is charged to the Statement of Comprehensive Income as expenditure and when it is material it is disclosed as a separate line item within operating expenditure.

Examples

- 12.37 The following examples are based on the principles and considerations set out in paragraphs 12.1 to 12.36 of this SORP:

For ease, the following examples do not take into consideration component accounting.

Example 1 – determining cash-generating units

Social landlord A has a development programme of ten schemes which have been appraised together and approved by the board as one programme. Five of the schemes are solely for the provision of social housing and the cash flows from the other five schemes are to be used to fund the social housing schemes. The ten schemes have been submitted to the regulator as one development programme which sets out how the funding of the schemes will work overall and funding is awarded for the overall development programme and not at an individual scheme level.

The social landlord would not go ahead with the social housing schemes if the other five schemes were not also part of the programme; the programme overall would not have been approved by the board as financially viable, and the contractual arrangement entered into with the regulator is for delivery of the development programme of ten schemes.

In these circumstances the social landlord does not have the option of unilaterally changing the development programme and removing the five social housing schemes. Therefore the lowest level of identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets is assessed as the cash inflows generated from the development programme of ten schemes.

The development programme is delivered as planned and the units move into management. At this point the social landlord is no longer bound by the original development programme contract and has flexibility in how it manages each

scheme. The cash-generating unit is now determined to be at a scheme level as this is how the social landlord manages the programme. The social landlord considers whether there is an indicator of impairment at this point and concludes that there is no indicator as the development programme has been delivered to plan, and therefore no further assessment of impairment is required.

Example 2 – indicators of impairment and measuring recoverable amount

Social landlord B has owned and managed an estate of 10 units for 15 years. All of the units are general needs. The social landlord is considering demolishing the existing units and replacing them with modern units that make better use of the existing site. The existing units have an original cost of £850,000 (including cost of land of £100,000) and the social landlord originally received government grant of £250,000. Social landlord B accounts for housing properties at cost and chooses to recognise government grant in income over the useful life of the housing property structure which is 50 years.

The plan is to demolish the existing units, building 20 new units in their place; five of these will be sold outright, five will be sold on shared ownership and 10 will be rented as social housing. The expectation is that grant will be forthcoming and that this, together with the expected proceeds from the outright sale and shared ownership sales, makes the new scheme financially viable.

Once the likelihood of the demolition taking place becomes probable, the social landlord reassesses the useful life of the existing units to end at the point at which the existing units are expected to be withdrawn from management. This is an indicator of impairment as set out in paragraph 12.6 of this SORP. At this point the existing units have a carrying value of £625,000 (£100,000 relating to land which is not depreciated) and the government grant has a remaining unamortised balance of £175,000. Since the land is being retained in the new units and there is no indicator of impairment in relation to the planned new scheme at this stage, the impairment assessment is confined to the cost of the existing units net of attributable unamortised grant.

The social landlord decides it is unable to measure reliably the VIU-SP for an asset intended to be used for only a small number of years. In assessing the fair value less costs to sell of the units the restriction on the use of the units as general needs means that the market is restricted to a transaction with another social landlord. Transactions of similar units between social landlords are limited and this factor coupled with the age and design of the units leads the social landlord to conclude that the fair value less costs to sell would be very low. It therefore considers recoverable amount is best represented by calculating value in use.

The value in use of the units is calculated at £250,000. The carrying amount of the units (i.e. the net book value of the assets less attributable unamortised grant) is £350,000 and therefore an impairment loss of £100,000 is recognised to reduce the carrying amount to the value in use. The remaining net book value of the units is depreciated over the revised useful life of five years which is the point at which the units are expected to be withdrawn from management. The remaining balance of government grant is recognised in income over the revised useful life of the property structure of five years.

Example 3 – indicators of impairment and measuring recoverable amount

Social landlord C has a single unit in a village, which has become void. Another social landlord has recently built 25 units of a modern design in a different part of the village and is experiencing some difficulties in letting all of these units. Social landlord C considers that there is a material impact arising from the demand issue and therefore that there is an indicator of impairment.

The social landlord recognises it cannot use VIU-SP to estimate the recoverable amount of the unit as demand is uncertain and the unit is not providing the same level of service to the business when it is void. The social landlord therefore considers that it can only estimate the recoverable amount of the unit as the higher of its fair value less costs to sell and value in use.

With respect to the fair value less costs to sell of the unit, if social landlord C has obtained consent from the regulator to dispose of the unit, it may estimate fair value less costs to sell as being the market value of the property less selling costs and the gross amounts

of grant (reduced by abatement where applicable). However, if social landlord C has not obtained consent, then it will need to estimate fair value less costs to sell in the light of recent comparable transactions between social landlords or via an appropriate estimate of the amount that might be paid by another social landlord.

Calculating the value in use of the unit this is based on the future cash inflows and outflows of the unit and therefore will reflect a loss of income due to the unit being void.

The social landlord recognises an impairment loss where the carrying amount of the unit is higher than its recoverable amount – that is the higher of the fair value less costs to sell and the value in use calculated.

Example 4 – indicators of impairment and measurement of recoverable amount

Social landlord D decides to develop a scheme of ten units on two adjacent sites of land with the following features:

- Five units for sale with expected proceeds of £700,000 (£140,000 per unit).
- Five units for rent at below market rate with estimated fair value of £300,000 (£60,000 per unit).
- The total cost of land is £400,000 which has been given planning permission which includes a restriction that part of the development is to be used for social housing. Therefore, the social landlord determines that the cost of land allocated for the residential sale development is determined as £250,000, and the cost of land allocated for the social housing development is determined as £150,000 (reflecting the lower value of land where the use is restricted to social housing).
- Expected construction cost of the scheme is £800,000 with no material difference between the building costs for a unit for sale and one for renting.
- Grant attributable to the scheme of £100,000.

In summary the social landlord is expecting to deliver a scheme at a net cost of £1,100,000 (being the cost of £1,200,000 (£400,000 land and £800,000 construction) less the grant of £100,000) which has a fair value of £1,000,000 (being the £700,000 sales proceeds on the units for sale and the £300,000 fair value of the units for rent at below market rate).

The scheme progresses to plan, with the sales crystallising the expected proceeds of £700,000. The social landlord records proceeds on the sale of the five units of £700,000 and cost of sales of £650,000 (the cost of land of £250,000 plus the construction cost of £400,000) with a resulting surplus of £50,000.

The social landlord recognises the remaining five units retained for renting at £550,000 (being the cost of land of £150,000 and half of the construction cost of the scheme of £800,000). Based on the guidance set out in paragraph 12.6 of this SORP, the social landlord considers there is no indicator of impairment.

One year later, the social landlord becomes aware of a problem with the design of the units for rent such that remedial works of £200,000 are required. There is no potential for insurance claims or litigation against any other party and the £200,000 (£40,000 per unit) is estimated to be the least cost of rectifying the

issue. The units continue to be rented and provide the same level of service intended when they were built, however the cost of rectifying the issue is assessed as material unplanned expenditure on the development, therefore the social landlord concludes it is an indicator of impairment of the units. There is no indicator of impairment of the land and therefore the impairment assessment is performed as follows:

Determining the cash-generating unit

The five units are contained within one scheme and are managed together. In particular, the cost of repairs and maintenance will be incurred equally across all five units, as will the cost of the remedial work required. The social landlord therefore determines that the cash-generating unit is the five remaining units within the scheme.

VIU

As suggested in paragraph 12.20 of this SORP, the social landlord first estimates the value in use of the scheme based on its future cash flows to determine whether it is higher than the carrying amount of the scheme. The social landlord concludes that the relatively high level of discount to market rents makes this unlikely.

Fair value less costs to sell

The social landlord decides that the most appropriate measure of the fair value of the units would be by reference to EUV-SH and this has reduced to £100,000 (£20,000 per unit) taking into account the remedial works required for the property.

VIU-SP

Consequently, the social landlord concludes that the highest measure of recoverable amount would be VIU-SP and decides that the most appropriate measure for this would be depreciated replacement cost. Since the units are relatively new it considers no specific adjustment needs to be made to reflect the physical condition of the property. The social landlord determines that there is no active market of similar properties that are available to purchase from another social landlord. Therefore, the cost of replacing the service potential of the five units in that area is determined to be the lower of:

- The cost of acquiring an asset on the open market to replace the service potential which is estimated at £700,000 (£140,000 per unit); and
- The optimal cost of constructing replacement units, which is estimated at £450,000 (£90,000 per unit). This cost is estimated using the original construction cost of the units but is adjusted to ensure that the issue with the original design of the units has been rectified and as a result

the estimated construction costs increase by £50,000 (£10,000 per unit) in comparison to the original construction costs. The land cost of £150,000 is combined with the estimated construction cost to give a total cost of £600,000.

Therefore, the lowest cost option is the cost of constructing the replacement units of £600,000 (£120,000 per unit). In addition, some grant is expected to be forthcoming if the social landlord decided to replace the assets; the amounts anticipated would be in the region of £100,000 (£20,000 per unit). This therefore means that the VIU-SP of the 5 units is estimated to be £500,000 (£600,000 less £100,000 grant) or £100,000 per unit.

Carrying value

The carrying value of the five units (including land) less unamortised grant (ignoring the effect of both the depreciation and amortisation) is £450,000 (costs of £550,000 less the £100,000 of government grant originally received) or £90,000 per unit.

Impairment

The carrying value of £450,000 is less than the VIU-SP estimated of £500,000 and therefore no impairment loss is recognised.

However, when the remedial expenditure is incurred, the social landlord considers whether the expenditure should be capitalised. Given that the expenditure is in the nature of rectifying a defect and not in the nature of enhancing the future benefits from the asset, none of the expenditure is considered to be capital and it is expensed as it is incurred.

Example 5 – estimating depreciated replacement cost

Social landlord E embarks on a development programme to build 20 properties, all of which are to be used to provide social housing. Housing properties are measured at cost and therefore the accrual model of accounting for government grant is applied in accordance with Chapter 13 Grants of this SORP.

The development is made up of 10 2-bed properties and 10 3-bed properties. The total cost of the scheme is £2,100,000 and £200,000 has been received as government grant. The costs of constructing the two different types of properties are as follows:

- 2-bed property: £90,000 per property
- 3-bed property: £120,000 per property

The cost of the land on which the properties are being constructed is £100,000 and is already included as property, plant and equipment within fixed assets as it

was purchased a number of years ago.

The scheme is completed to plan with no indicators of impairment identified and therefore the financial statements record the following:

Housing property additions totalling £2,100,000 within property, plant and equipment (tangible assets).

Government grant of £200,000 within liabilities accounted for under the accrual model. Social landlord E releases the grant to income over the useful life of the housing property structure, which is 50 years.

Two years later, a change in legislation results in new requirements in respect of the size of rental properties and as a result the 3-bed properties can no longer be rented out as originally planned but can still be rented as a 2-bed property. This is assessed as an indicator of impairment of the housing properties (not the land), and Social landlord E performs an impairment review as follows:

- (1) Social landlord E has assessed the cash generating unit to be the 10 3-bed properties as a whole, because this is how the social landlord monitors its business activities and makes decisions about the assets.
- (2) The recoverable amount of the cash-generating unit is the higher of the following:
 - (a) Fair value less costs to sell: Social landlord E decides this is best determined by reference to EUV-SH which gives a value of £50,000 per property. This is based primarily on cash flows as a 2-bed property as there is no active market for transactions between social landlords in the local region.
 - (b) VIU-SP: This is determined based on the service provided by the properties following the change in legislative requirements.

The properties can now only be rented out as 2-bed properties and Social landlord E decides that depreciated replacement cost is an appropriate measure of the VIU-SP of the cash-generating unit. The depreciated replacement cost of each property is based on the lower of the cost of constructing or acquiring an equivalent asset (i.e. a 2-bed property) as follows:

- The cost of acquiring an equivalent property on the open market is £105,000 based on similar properties available to sell at the reporting date.
- There is no active market for transactions between social landlords of similar properties in the local area, and consequently the cost of purchasing an equivalent unit for another social landlord is not calculable.

- The cost of construction is estimated at £90,000 based on the previous construction cost of a 2-bed property as there were no issues on the original construction and all of the 2-bed properties are currently rented out and providing the service that was originally planned. This is combined with the original cost of land of £5,000 per property to give a total estimated replacement cost of £95,000 per property.

Therefore the lowest cost is the cost of construction at £95,000 per property, totalling £950,000.

The carrying value of the land attributable to the 10 properties of £50,000 (50% x £100,00) is apportioned at £5,000 per property as there is no difference in the intended use of the land and therefore it is considered appropriate to pro rate the original land cost equally to each property.

Therefore the VIU-SP is calculated using depreciated replacement cost as follows:

	£
Cost of construction (10 x £90,000)	900,000
Cost of land (10 x £5,000)	50,000
Depreciation (two years of a 50-year useful life of the housing property structure, no depreciation charged on land)	(36,000)
VIU-SP	914,000

The recoverable amount of the properties is therefore £914,000 being the higher of the fair value of £500,000 and the VIU-SP of £914,000.

(3) The carrying amount of the 10 3-bed properties is:

	£
Original cost of 10 3-bed properties plus the original cost of land	1,250,000
Depreciation (two years of a 50-year useful life of the housing property structure)	(48,000)
<i>Net book value</i>	1,202,000
Unamortised grant (50% of the original £200,000 grant less two years of grant recognised to income)	(96,000)
Carrying value of the cash-generating unit	1,106,000

(4) The difference between the carrying amount of £1,106,000 and the recoverable amount of £914,000 is £192,000 which is recognised as an impairment loss in the financial statements as part of operating costs within the Statement of Comprehensive Income.

Additional requirements for impairment of goodwill

- 12.38 Paragraphs 27.24 to 27.27 of FRS 102 set out the additional requirements to be considered when assessing the impairment of goodwill.

Reversal of an impairment loss

- 12.39 An impairment loss recognised for all assets, excluding goodwill, shall be reversed in a subsequent period if, and only if, the reasons for the impairment loss have ceased to apply. Indicators that an impairment loss may have decreased will include the opposite of those set out in paragraph 12.6 of this SORP as well as other inflationary and market factors. The procedure for determining whether all or part of the prior impairment loss is reversed depends on whether the prior impairment loss was based on the recoverable amount of that individual asset (see paragraph 27.30 of FRS 102) or the recoverable amount of the cash-generating unit to which the asset belongs (see paragraph 27.31 of FRS 102). The reversal of an impairment loss should be included in the Statement of Comprehensive Income as a separate line within operating expenditure and not netted off operating expenditure.

Impairment of inventory (stock), including properties developed for outright sale

- 12.40 As set out in paragraph 27.2 of FRS 102, a social landlord shall assess at each reporting date whether any inventories are impaired by comparing the carrying amount of each item of inventory (stock) (or group of similar items as defined in paragraph 27.3 of FRS 102) with its selling price less costs to complete and sell.
- 12.41 If an item of inventory (stock) is impaired, a social landlord shall reduce the carrying amount of the inventory (stock) to its selling price less costs to complete and sell and that reduction is an impairment loss which is recognised immediately in the Statement of Comprehensive Income.
- 12.42 This is particularly relevant to social landlords holding properties developed for outright sale which are classified as inventory (stock) in the Statement of Financial Position at the reporting date. Social landlords must follow the guidance set out in this SORP when assessing mixed tenure development schemes.
- 12.43 At subsequent reporting dates:
- where circumstances that previously resulted in an impairment of inventory (stock) no longer exist; or
 - when there is clear evidence of an increase in selling price less costs to complete and sell because of changed economic circumstances;

a social landlord must reverse the amount of the impairment (limited to the amount of the original impairment loss recognised in the Statement of Comprehensive Income) so that the new carrying amount is the lower of cost and the revised selling price less costs to complete and sell.

Disclosures

- 12.44 Paragraphs 27.32 to 27.33 of FRS 102 set out the disclosure requirements for impairment that shall be followed.
- 12.45 This SORP requires that the notes to the accounts include disclosure of:
- (a) the key judgements made in defining the social landlord's cash-generating units for its housing properties
 - (b) the estimation technique used in measuring the recoverable amount for the purposes of the impairment assessment
 - (c) the key judgements made in estimating the recoverable amount
 - (d) where VIU-SP is used to estimate the recoverable amount, the method used to calculate VIU-SP and the key assumptions made in calculating this value.
- 12.46 Paragraph 27.33A of FRS 102 requires that a social landlord 'disclose a description of the events and circumstances that led to the recognition or reversal of the impairment loss'. In addition to this requirement, this SORP requires that the notes to the accounts disclose:
- (a) the number of units impacted by the impairment loss or reversal of the impairment loss
 - (b) the carrying value of the units prior to the recognition of the impairment loss or reversal of the impairment loss
 - (c) the accumulated impairments recognised in the brought forward balances within the accounts.

Chapter 13

Employee benefits

- 13.1 Section 28 of FRS 102, *Employee Benefits*, sets out the requirements that shall be applied in relation to **employee benefits**. The general recognition principle for all employee benefits is set out in paragraph 28.3 of FRS 102 and requires the cost of all benefits to which employees have become entitled as a result of their service to the entity during the reporting period to be included as a liability (after deducting amounts paid) and as an expense.
- 13.2 There are four types of benefit covered by Section 28 of FRS 102, *Employee Benefits*, which are not reproduced in this SORP but are highlighted in the following paragraphs along with additional disclosure requirements in relation to short-term employee benefits.

Short-term employee benefits

- 13.3 Short-term employee benefits are defined as those employee benefits (other than **termination benefits**) that are expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service. This includes wages, salaries and social security contributions, short-term compensated balances (such as paid annual leave and paid sick leave) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services for current employees).
- 13.4 Paragraphs 28.5 to 28.8 of FRS 102 set out the requirements for recognition and measurement of short-term employee benefits.
- 13.5 This SORP requires social landlords to include the following disclosures:
- (a) Remuneration paid to **key management personnel** in relation to the period of account or, where no such remuneration is so payable, a statement to that effect. The aggregate amount disclosed should separately identify sums paid to non-executive Board members, where remunerated. If non-executive Board members are not remunerated, a

statement should be made to this effect.

- (b) The remuneration payable to the highest paid Director in relation to the period of account, excluding pension contributions.
 - (c) The number of staff whose remuneration payable in relation to the period of account fell within each band of £10,000 from £60,000 upwards. This should also include compensation for loss of office.
 - (d) The aggregate amount of any compensation payable to Directors or past Directors in relation to the period of account in respect of loss of office (whether by retirement or otherwise).
 - (e) The aggregate amount of Directors' or past Directors' pensions recognised within the financial statements for the year. This amount does not include any pension payable or receivable under a pension scheme if the scheme is such that the contributions under it are substantially adequate for maintenance of the scheme. The amount shown shall distinguish between pensions in respect of services as Director, whether of the social landlord or any of its subsidiaries, and other pensions.
 - (f) The aggregate amount of any consideration payable to or receivable by third parties in relation to the period of account for making available the services of any person to perform the role of Director of the social landlord, or (while a Director of the social landlord) in connection with the management of the affairs of the social landlord or the affairs of any subsidiary of the social landlord.
- 13.6 In relation to paragraph 13.5(f) 'third parties' means persons other than a Director or a person connected with the Director or a body corporate controlled (within the meaning of section 255 of the Companies Act 2006) by that Director and the social landlord or any of its subsidiaries.
- 13.7 In paragraph 13.5(f), amounts to be disclosed include benefits otherwise than in cash and, in relation to such amounts, references to the amounts are to be the estimated fair value of the benefit. This SORP requires the nature of such benefits to be disclosed in the notes to the financial statements.
- 13.8 This SORP requires social landlords to include the following disclosures about the nature of the Chief Executive's or equivalent's pension arrangements stating:
- (a) the nature of the pension scheme and how it is funded
 - (b) whether they are an ordinary member of the pension scheme
 - (c) whether any enhanced or special terms apply
 - (d) whether they have an individual pension arrangement (including a

personal pension) to which the social landlord or any of its subsidiaries makes a contribution, and if so, the aggregate amount of contribution made by the social landlord and its subsidiaries.

- 13.9 For the purpose of paragraph 13.5(a) to (c) above, remuneration includes:
- (a) wages and salaries, including performance-related pay, payable for the period
 - (b) fees and dividends
 - (c) sums payable by way of expense allowance (so far as chargeable to UK tax)
 - (d) termination benefits
 - (e) the estimated money value of any other benefits otherwise than in cash.

Post-employment benefits

- 13.10 **Post-employment benefits** are defined as employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment and include, for example, retirement benefits, such as pensions and other post-employment benefits such as post-employment life insurance and post-employment medical care.
- 13.11 A social landlord may have employees who are members of a defined contribution pension scheme and/or a defined benefit scheme, including **multi-employer plans**. A classification of a pension scheme as defined contribution or defined benefit is dependent on their principal terms and conditions. For guidance on how to classify pension schemes, including multi-employer plans, refer to paragraphs 28.9 to 28.12 of FRS 102.
- 13.12 The recognition, measurement and disclosure requirements for post-employment benefits are set out as follows in FRS 102:
- (a) **Defined contribution plans**: paragraphs 28.13, 28.13A, 28.40 and 28.40A
 - (b) **Defined benefit plans**: paragraphs 28.14 to 28.28 and paragraphs 28.41 to 28.41A

Multi-employer plans

- 13.13 A large number of social landlords are members of multi-employer plans. Paragraphs 28.11 and 28.11A of FRS 102 state that defined benefit multi-employer plans are accounted for as defined contribution plans where there is insufficient information available to account for the plan as defined benefit.
- 13.14 It is the responsibility of the social landlord to contact the relevant scheme administrator(s) to ascertain if there is sufficient information about the scheme assets and liabilities for each employer to apply defined benefit accounting.

- 13.15 If the circumstances set out in paragraph 13.13 apply, a social landlord shall account for the multi-employer plan as if it were a defined contribution plan in accordance with paragraphs 28.13 and 28.13A of FRS 102 and make disclosures required by paragraphs 28.40 and 28.40A of FRS 102.
- 13.16 For multi-employer plans that are accounted for as defined contribution plans, there may be a contractual agreement between the plan and the social landlord that determines how the deficit will be funded. Where there is such an agreement in place, a social landlord shall recognise a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) in the Statement of Financial Position and the resulting expense in the income and expenditure in accordance with paragraphs 28.13 and 28.13A of FRS 102.

Other long-term employee benefits

- 13.17 Other long-term employee benefits include items such as long-term paid absences, long service benefits, long-term disability benefits, profit sharing and bonuses and deferred remuneration.
- 13.18 Paragraph 28.30 of FRS 102 sets out the measurement requirements for other long-term employee benefits. Disclosures shall be made in accordance with paragraph 28.42 of FRS 102.

Termination benefits

- 13.19 In FRS 102 *Appendix I Glossary* termination benefits are defined as:

Employee benefits provided in exchange for the termination of an employee's employment as a result of either:

- (a) an entity's decision to terminate an employee's employment before the normal retirement date; or*
- (b) an employee's decision to accept voluntary redundancy in exchange for those benefits.*

- 13.20 Paragraphs 28.31 to 28.37 of FRS 102 set out the requirements for recognition and measurement of termination benefits. Disclosures shall be made in accordance with paragraphs 28.43 and 28.44 of FRS 102. Social landlords shall refer to Section 21 *Provisions and Contingencies* of FRS 102, and in particular paragraphs 21.11C and 21.11D and the appendix to Section 21 of FRS 102 for guidance on the recognition of a liability in respect of restructuring or redundancy programmes.

Chapter 14

Related party disclosures

- 14.1 This section provides additional guidance to social landlords on related party disclosures based on the requirements set out in Section 33 *Related Party Disclosures* of FRS 102.
- 14.2 A **related party** is defined in paragraph 33.2 of FRS 102 and social landlords shall have regard to this definition and the substance of the relationship when identifying a related party.
- 14.3 For example, the following are considered to be related parties for all social landlords:
- (a) Key management personnel (this includes board members) and **close members of the family of a person**
 - (b) Subsidiaries, associates, collaborations and joint venture entities not fully eliminated on consolidation
 - (c) Pension schemes for the benefit of employees of either the reporting entity or an entity related to the reporting entity.
- 14.4 Paragraph 33.4 of FRS 102 sets out those relationships which are not considered to be related parties.
- 14.5 Paragraph 33.5 of FRS 102 requires that a social landlord shall disclose relationships between a parent and subsidiary irrespective of whether there have been any **related party transactions**. The name of the parent and, if different, the ultimate controlling party, is required in a note to the financial statements and, if neither the parent nor the ultimate controlling party produces publicly available financial statements, the name of the next most senior parent that does so (if any) shall also be disclosed.
- 14.6 Paragraph 33.7 of FRS 102 requires that a social landlord disclose the total compensation paid to key management personnel. Key management personnel is defined in FRS 102 as those persons having authority and

responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. It is likely that this definition will include the senior management team and board members of a social landlord. Compensation includes all employee benefits, i.e. consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes consideration paid on behalf of a parent of the entity in respect of goods or services provided to the entity. Disclosure of this information is required in total and not at an individual level by FRS 102.

14.7 Paragraph 33.7A of FRS 102 allows that when a social landlord is subject to a legal or regulatory requirement to disclose directors' remuneration (or equivalent), such as those set out in the relevant regulatory accounting direction/determination/order, it is exempt from the requirements of paragraph 33.7 of FRS 102 if the key management personnel and directors are the same.

14.8 A related party transaction is a transfer of resources, services or obligations between the social landlord and the related party, regardless of whether a price is charged.

In accordance with paragraph 33.9 of FRS 102, if a social landlord has related party transactions, the following shall be disclosed:

- the nature of the related party relationship and
- information about the transactions and balances at the reporting date necessary for an understanding of the potential effect of the relationship on the financial statements.

At a minimum, disclosures shall include:

- (a) the amount of the transactions
- (b) the amount of outstanding balances and
 - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement and
 - (ii) details of any guarantees given or received
- (c) provisions for uncollectible receivables related to the amount of outstanding balances
- (d) the expense recognised in the period in respect of bad or doubtful debts due from related parties.

14.9 All related party transactions, including transactions with board members, and any balances outstanding at the year end, should be disclosed in a note to the financial statements regardless of whether they are carried out on an arm's

length basis. Paragraph 33.14 of FRS 102 permits the disclosure of items of a similar nature in aggregate, for example this SORP considers disclosure of transactions with tenant board members for rents received during the year and year end arrears, is required in aggregate only.

- 14.10 Social landlords shall include in a note to the financial statements all of the required disclosures for related party transactions and year end balances set out in paragraphs 33.8 to 33.14 of FRS 102. This SORP requires any required disclosures and statements within the relevant accounting direction/determination/order issued by the appropriate regulator also be made.

Chapter 15

Specialised activities

- 15.1 Section 34 *Specialised Activities* of FRS 102 sets out the financial reporting requirements for a number of specialised activities. The following activities have been considered in further detail; however social landlords shall consider all of the guidance in Section 34 *Specialised Activities* of FRS 102, to assess whether other activities and the accounting requirements are relevant to their financial statements.

Incoming resources from non-exchange transactions [not applicable to FPSL]

- 15.2 Paragraphs PBE34.64 to PBE34.74 of FRS 102 set out guidance for resources received from non-exchange transactions by public benefit entities or entities within a **public benefit entity group**.
- 15.3 A non-exchange transaction is defined in FRS 102 as '*a transaction whereby an entity receives value from another entity without directly giving approximate equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange*'.
- 15.4 The guidance in this section of FRS 102 is considered to be applicable to transactions involving donations of land and/or other assets or acquisitions of land and/or other assets at below their market value, including where the donation is considered to be a donated service or facility.
- 15.5 Where a social landlord receives a donation of land and/or other assets or acquires land and/or other assets at below their market value from a third party that does not meet the definition of a government source as set out in this SORP, the requirements of paragraphs PBE 34.67 to PBE 34.73 of FRS 102 must be applied.
- 15.6 This will require the transaction to be recognised as follows:
- (a) Asset(s) received or receivable must be recognised in the Statement of

Financial Position at fair value (taking account of any restrictions on the use of the asset(s)); and

- (b) Income equivalent to the difference between any amounts paid or payable for the asset(s) and the fair value of the asset(s) recognised in the Statement of Comprehensive Income as a donation when future performance-related conditions are satisfied, or when the resources are received or receivable if there are no performance-related conditions.
- 15.7 Disclosure of the transaction shall be made in accordance with paragraph PBE 34.74 of FRS 102.
- 15.8 Where a social landlord receives a donation of land and/or other assets or acquires land and/or other assets at below its market value from a government source, for example a local authority, this is considered by this SORP to be in substance a non-monetary government grant and therefore the requirements of paragraphs 11.22 to 11.23 of this SORP shall be applied.

Public benefit entity combinations [not applicable to FPSL]

- 15.9 Paragraphs PBE 34.76 to PBE 34.86 apply to public benefit entities entering into the following categories of entity combination:
- (a) Combinations at nil or nominal consideration which are in substance a gift; and
 - (b) Combinations which meet the definition and criteria of a merger.
- 15.10 These types of combination are highlighted and considered in further detail in Chapter 7 *Business Combinations and Goodwill* of this SORP.

Public benefit entity concessionary loans [not applicable to FPSL]

- 15.11 Paragraphs PBE 34.87 to PBE 34.97 of FRS 102 apply to public benefit entity concessionary loans within the financial statements of public benefit entities or entities within a public benefit entity group.
- 15.12 Public benefit entity concessionary loans are defined in FRS 102 as '*loans made or received between a public benefit entity or an entity within the public benefit entity group and other party at below the **prevailing market rate** of interest that are not repayable on demand and are for purposes to further the objectives of the public benefit entity or public benefit entity parent*'.
- 15.13 Loans between group companies which are made or received at below the prevailing market rate are not concessionary loans unless they have been

made or received to further the public benefit entity objectives of the group. For example, a loan made to a subsidiary to assist them during a period of financial difficulty is not a concessionary loan as defined in FRS 102.

- 15.14 Where a social landlord makes or receives public benefit entity concessionary loans, there is a choice in the recognition, measurement and disclosure requirements, either:
- (a) the accounting policy choice made for its financial instruments under paragraphs 11.2 and 12.2 of FRS 102; or
 - (b) The concessionary loans can be recognised in the Statement of Financial Position at the amount paid or received and in subsequent years the carrying the amount adjusted to reflect any accrued interest payable or receivable. To the extent that the loan is irrecoverable an impairment loss must be recognised in the Statement of Comprehensive Income.
- 15.15 Where a social landlord opts to account for concessionary loans applying paragraph 15.14(b) of this SORP, the presentation and disclosure requirements set out in paragraphs PBE 34.93 to PBE 34.97 of FRS 102 shall be followed. The same accounting treatment shall be applied for concessionary loans made and received by a social landlord.

Homebuy and similar arrangements

- 15.16 **Homebuy** is a term used to describe a programme of low-cost home ownership products where a loan is provided by a social landlord to the purchaser of a property at a low or nil interest rate. The programme is usually funded through government grant or a combination of government grant and the social landlord's own funds. The loan made to the purchaser has no fixed repayment date and there are no monthly repayment requirements. The social landlord shares in any future capital gain realised on redemption of the loan, which will be when the property is sold or if the purchaser chooses to repay the loan without selling the property. In the circumstances where the purchaser chooses to repay the loan without selling the property, the value of the loan to be repaid is based on the property's market value at that date. Any capital loss realised on redemption of the loan is offset initially against the government grant.
- 15.17 There are two distinct parts to Homebuy schemes:
- the Homebuy loan (the low/nil interest rate loan provided by the social landlord to the purchaser); and
 - the Homebuy grant (provided by the Government to the social landlord).
- 15.18 This SORP considers that a Homebuy loan, as described in paragraph 15.19 of this SORP, meets the definition of a public benefit entity concessionary loan

and must be accounted for in accordance with paragraph 15.11 to 15.15 of this SORP.

- 15.19 If a Homebuy loan is considered by the social landlord to be irrecoverable, an impairment loss must be recognised in the Statement of Comprehensive Income to the extent that it cannot be offset against the associated Homebuy grant. Where the impairment loss is offset in part or in total by the Homebuy grant, the social landlord must reduce the government grant balance by the value that is being offset against it.
- 15.20 Homebuy grants were provided by the Government to social landlords to fund all or part of Homebuy loans provided by the social landlord to the purchaser of the housing property. This SORP considers that a social landlord will only realise the benefit of the Homebuy grant when the Homebuy loan is redeemed and the Homebuy grant is recycled for use by the social landlord to develop its own assets, rather than being used to fund the purchase of a housing property by a third party. As such, this SORP considers that on receipt of the initial Homebuy grant this is a government grant received in advance and must be recognised as deferred income in the Statement of Financial Position up until the point the related Homebuy loan is redeemed.
- 15.21 When a Homebuy loan is redeemed, the social landlord must reclassify the related Homebuy grant to the recycled capital grant liability and account for the recyclable grant in accordance with paragraphs 11.326 to 11.29 of this SORP.
- 15.22 In accordance with paragraph PBE 34.96 of FRS 102, a social landlord must disclose the terms and conditions of any Homebuy loan arrangements, for example the interest rate, any security provided and the terms of repayment.
- 15.23 This SORP considers that Homebuy loans should be disclosed in aggregate, in accordance with paragraph 34.97 of FRS 102, unless the social landlord determines that this would obscure significant information. This SORP considers that Homebuy loans should be classified as fixed asset investments and recommends that Homebuy loans are disclosed as a separate line in the Statement of Financial Position (as shown in the Example Accounts in the Appendix to this SORP).
- 15.24 It is important that the detailed terms and conditions of Homebuy and similar arrangements are reviewed carefully to ensure that the accounting and presentation in the financial statements reflects the substance of the transaction.
- 15.25 There may be arrangements where the social landlord is purely acting as an agent rather than entering into Homebuy transactions itself. Such arrangements are not in scope for accounting requirements set out in paragraphs 15.16 to 15.24 of this SORP. The social landlord's fee for acting

as an agent shall be accounted for in accordance with Section 23 *Revenue from Contracts with Customers* of FRS 102.

Other activities

- 15.26 In addition to the activities identified in Section 34 *Specialised Activities* of FRS 102, the following activities are considered directly relevant to social landlords and require specific guidance.

Agreements to improve existing properties

- 15.27 A social landlord may enter into an agreement whereby they prepay a third party (such as a local authority) to undertake work to existing properties and, at the same time, there is an agreement with the same third party for the social landlord to undertake the improvement work on behalf of the third party (often in return for a payment in advance).
- 15.28 These agreements often relate to properties which are subject to transfer from the third party to the social landlord. Where a social landlord has made such a prepayment it should determine as and when the work is carried out whether it is appropriate to capitalise the expenditure in accordance with paragraph 17.10 of FRS 102.
- 15.29 Rights of social landlords to have improvement works carried out to properties by a third party (such as a local authority) should be recognised as prepayments where payment has occurred in advance of the works being carried out and receipts in advance from the same third party should be recognised as liabilities. Assets and liabilities or income and expenditure must not be offset.
- 15.30 Where social landlords have entered into agreements to purchase improved property from a third party (such as a local authority) and at the same time enter a subcontracting agreement to carry out the improvement works on behalf of the same third party, the substance of the agreement shall be considered when recognising transactions and balances within the financial statements.

Chapter 16

Reserves

- 16.1 This section sets out the requirements for accounting and disclosing reserves within a social landlord's financial statements.
- 16.2 It is important that the Statement of Financial Position clearly shows the **general reserves** and **restricted reserves** of a social landlord.

Designated reserves

- 16.3 There may be instances where social landlords wish to designate elements of their income and expenditure reserve for specific purposes. For the purposes of this SORP, such designations are considered to be an internal matter and therefore should not be disclosed in the primary statements.

Restricted and endowment reserves

- 16.4 Where a social landlord is subject to an external restriction, for example a restriction on the use of a government grant received and recognised in the Statement of Comprehensive Income, this should be separately recognised within reserves as a **restricted reserve** or **endowment reserve**. This SORP requires the following disclosures:
- (a) the total restricted and endowment reserves should be presented separately in the Statement of Financial Position
 - (b) an analysis of these reserves including the movement between opening and closing balances should be included in the notes to the financial statements
 - (c) a description of the restrictions applicable to each reserve should be included in the notes to the financial statements.
- 16.5 Revenue and expenditure must be taken to the Statement of Comprehensive

Income and cannot be directly set against a restricted or endowment reserve. A transfer from the general reserve to the restricted or endowment reserve can then be made as appropriate.

- 16.6 Under the relevant accounting direction/determination/order there are a number of funds required by regulatory bodies to be separately presented in the financial statements. These should be shown, where appropriate, as restricted reserves.
- 16.7 For social landlords who are registered charities, the concept of restricted and endowment reserves has particular relevance. The Charities SORP addresses in greater detail restricted and endowment funds which social landlords should refer to for further guidance.

Transition to the Housing SORP 2026

First time adoption of FRS 102

- 17.1 On first time adoption of FRS 102, the requirements of Section 35 of FRS 102, *Transition to this FRS*, shall be applied.
- 17.2 An explicit and unreserved statement shall be included within the social landlord's financial statements of compliance with FRS 102 and this SORP.
- 17.3 Paragraph 35.9 of FRS 102 requires that an entity shall not retrospectively change the accounting it followed under its previous financial reporting framework for any of the following transactions:
- (a) **de-recognition** of financial assets and financial liabilities
 - (b) accounting estimates
 - (c) measuring non-controlling interests.
- 17.4 Paragraph 35.10 of FRS 102 sets out the exemptions that an entity may use on first-time adoption of FRS 102. The following exemptions may be of particular relevance to social landlords:
- (a) Paragraph 35.10(a) allows **first time adopters** not to apply Section 19 *Business Combinations and Goodwill* of FRS 102, to business combinations that were effected before the **date of transition**. If this exemption is applied all assets and liabilities acquired or assumed in a past business combination shall be recognised and measured in accordance with paragraphs 35.7 to 35.9, or if applicable, 35.10(b) to (y) of FRS 102, except for intangible assets other than goodwill, which shall not be separately recognised, and goodwill, for which no adjustment shall be made to the carrying value.
 - (b) Paragraph 35.10(c) allows first-time adopters to elect to measure property, plant and equipment (tangible assets) or **intangible assets other than goodwill** at its fair value at the date of transition and use that

fair value as its **deemed cost** at that date.

- (c) Paragraph 35.10(q) allows first-time adopters to not apply paragraphs PBE 34.75 to PBE 34.86 relating to public benefit entity combinations to combinations effected before the date of transition.

- 17.5 Chapter 11 *Grants* of this SORP, sets out the following mandatory accounting requirements for government grant.

This SORP requires that:

- (a) a social landlord which accounts for its housing properties at cost must recognise government grants using the accrual model set out in paragraphs 13.15 to 31.21 of this SORP; and
- (b) a social landlord which accounts for its housing properties at valuation must recognise government grants using the performance model set out in paragraph 31.12 of this SORP.

- 17.6 Therefore where a social landlord chooses to apply the transitional arrangements set out in either paragraph 35.10 (c) or paragraph 35.10 (d) of FRS 102 to its housing properties the following accounting requirements must be applied for the government grant associated with those housing properties as there are no transitional arrangements available for government grants:

- Where first-time adopters fair value housing properties at the date of transition and use this as deemed cost, as permitted by paragraph 35.10 (c) of FRS 102, this is considered to be a valuation, and a revaluation reserve must be established to account for this movement. Government grant must be accounted for using the performance model up to the date of transition as required where housing properties are accounted for at valuation in paragraph 11.8(b) of this SORP. Going forward the accounting policy is to hold housing properties at cost and therefore subsequent government grants must be accounted for using the accrual model as set out in paragraph 11.8(a) of the SORP. The movement in the fair value compared to the cost of the housing properties should be accounted for within the revaluation reserve. The difference between historical cost depreciation and depreciation charged on the fair value balance should be transferred from the revaluation reserve to the income and expenditure reserve.
- Where first-time adopters use a revaluation determined under its previous financial reporting framework of housing properties as deemed cost at the date of transition, as permitted by paragraph 35.10(d) of FRS 102, this is still considered to be a valuation of housing properties and therefore up to the date of transition government grant is accounted for using the performance model. Going forward the accounting policy for new housing properties is to measure them at cost and therefore subsequent

government grant must be accounted for using the accrual model as set out in paragraph 11.8(a) of this SORP. The revaluation reserve recognised under a previous financial reporting framework must be retained (although this may be calculated at a different amount than the revaluation reserve balance stated under a previous financial reporting framework), with a transfer from the revaluation reserve to the income and expenditure reserve for the difference in historical cost depreciation and the depreciation charged on the revalued asset balance.

17.7 Paragraph 35.12 of FRS 102 requires disclosure of how the transition from the previous financial reporting framework to FRS 102 and this SORP has affected the reported financial position and financial performance. This includes:

- (a) a description of the nature of each change in accounting policy
- (b) reconciliations of equity (capital and reserves) determined in accordance with its previous financial reporting framework to its equity determined in accordance with FRS 102 for both:
 - (i) the date of transition to FRS 102 and this SORP and
 - (ii) the end of the latest period present in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework
- (c) a reconciliation of the income and expenditure determined in accordance with the entity's previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its income and expenditure determined in accordance with FRS 102 and this SORP for the same period.

Transition to Housing SORP 2026 from Housing SORP 2018

17.8 Social landlords must apply this SORP for accounting periods beginning on or after 1 January 2026.

17.9 Early application of this SORP is permitted provided that:

- (a) The accounts direction of the relevant regulator permits it;
- (b) all the Periodic Review 2024 amendments to FRS 102 are implemented. The Periodic Review 2024 amendments are those changes made to FRS 102 as described in the document entitled 'Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSS – Periodic Review 2024' on the FRC website; and
- (c) all the amendments to this SORP from the Housing SORP 2018 are

applied at the same time.

17.10 If a social landlord applies this SORP early, it must disclose that fact.

17.11 When a social landlord first applies this SORP and the *Periodic Review 2024 amendments*, it shall apply the amendments retrospectively, in accordance with paragraph 10.12 of FRS 102, except as specified in paragraphs 1.40 to 1.68 of FRS 102.

Changes in terminology

17.12 The following table compares Companies Act 2006 terminology which is generally adopted by social landlords and links it to the equivalent terminology used in FRS 102 and this SORP.

Company law terminology	FRS 102 / SORP terminology
Accounting reference date	Reporting date
Accounts	Financial statements
Balance sheet	Statement of financial position
Capital and reserves	Equity
Cash at bank and in hand	Cash
Financial year	Reporting period
Group [accounts]	Consolidated [financial statements]
Interest payable and similar expenses	Finance costs
Interest receivable and similar income	Finance income/investment income
Minority interests	Non-controlling interest
Net realisable value	Estimated selling price less costs to complete and sell
Parent undertaking	Parent
Profit and loss account	Statement of comprehensive income
Related undertakings	Subsidiaries, associates and joint ventures
Stocks	Inventories
Subsidiary undertaking	Subsidiary
Fixed assets	Includes property, plant and equipment (tangible assets) and investment property
Trade creditors	Trade payables
Trade debtors	Trade receivables
Year-end/period end	Reporting date

Chapter 18

Other accounting requirements

18.1 The following sections of FRS 102 are not explicitly referred to within this SORP but social landlords shall have due regard to the requirements of these sections where appropriate:

- Section 7 *Statement of Cash Flows*
- Section 11 *Basic Financial Instruments*
- Section 12 *Other Financial Instruments Issues*
- Section 14 *Investments in Associates*
- Section 15 *Investments in Joint Ventures*
- Section 18 *Intangible Assets other than Goodwill*
- Section 22 *Liabilities and Equity*
- Section 25 *Borrowing Costs*
- Section 26 *Share-based Payment*
- Section 29 *Income Tax*
- Section 30 *Foreign Currency Translation*
- Section 31 *Hyperinflation*
- Section 32 *Events after the End of the Reporting Period*

Additional disclosure requirements

18.2 The accounting directions/determinations/orders issued by the appropriate regulator contain a number of detailed disclosure requirements for inclusion in a social landlord's financial statements. A number of the requirements are similar to those in the Companies Act, however, there are differences, and care should be taken to ensure the financial statements comply with all relevant legislative requirements for the social landlord. This SORP includes reference to some of

the disclosure requirements but not all of them and therefore should not be seen as a substitute for these regulatory documents.

Glossary

FRS 102 sets out a Glossary in Appendix I – this has not been replicated in full, but where terms have been identified as requiring definition they have been highlighted in bold the first time they are used in this SORP and defined in the table below.

Items marked by an * are Housing SORP specific definitions.

Term	Definition
Accounting policies	The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
Accounting estimates	Monetary amounts in financial statements that are subject to measurement uncertainty.
Acquisition date	The date on which the acquirer obtains control of the acquiree.
Annual Report of the Board*	A narrative report included within the financial statements which helps stakeholders to assess the performance of a business, providing a balanced and neutral assessment of the development and performance of the business during the financial year and setting out future plans, including risks and uncertainties to be faced.
Asset	A present economic resource controlled by the entity as a result of past events.
Associate	An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.
Business	An integrated set of activities and assets conducted and managed for the purpose of providing: (a) a return to investors; or (b) lower costs or other economic benefits directly and proportionately to policyholders or participants. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is present in a transferred set of activities and assets, the transferred set must be presumed to be a business.
Business combination	The bringing together of separate entities or businesses into one reporting entity.

Term	Definition
Cash flows	Inflows and outflows of cash and cash equivalents.
Cash-generating unit	The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.
Close members of the family of a person	Those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity including: (a) that person's children and spouse or domestic partner; (b) children of that person's spouse or domestic partner; and (c) dependants of that person or that person's spouse or domestic partner.
Combination that is in substance a gift	A combination carried out at nil or nominal consideration that is not a fair value exchange but in substance the gift of one entity to another.
Consolidated financial statements	The financial statements of a parent and its subsidiaries presented as those of a single economic entity.
Constructive obligation	An obligation that derives from an entity's actions where: (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
Contingent asset	A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
Contingent liability	A contingent liability is either: (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.
Control (of an entity)	The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Term	Definition
Current assets	Assets of an entity which: (a) for an entity choosing to apply paragraph 1A(1) of Schedule 1 to the Regulations, are not non-current assets; or (b) for all other entities, are not fixed assets.
Date of transition	The beginning of the earliest period for which an entity presents full comparative information in a given standard in its first financial statements that comply with that standard.
Deemed cost	An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.
Defined benefit plans	Post-employment benefit plans other than defined contribution plans.
Defined contribution plans	Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and has no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
Depreciated replacement cost	The most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date.
Depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.
Derecognition	The removal of all or part of a previously recognised asset or liability from an entity's Statement of Financial Position.
Derivative	A financial instrument or other contract with all three of the following characteristics: (a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate or other variable (sometimes called the 'underlying'), provided in the case of a non-financial variable that the variable is not specific to a party of the contract (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors (c) it is settled at a future date.
Discontinued operations	A component of an entity that has been disposed of and: (a) Represented a separate major line of business or geographical area of operations (b) Was part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of

Term	Definition
	operations; or (c) Was a subsidiary acquired exclusively with a view to resale.
Effective interest method	A method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
Effective interest rate	The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the carrying amount of the financial asset or financial liability.
Employee benefits	All forms of consideration given by an entity in exchange for service rendered by employees.
Endowment reserves*	Those reserves that must be invested or used for a specific purpose. The term endowment applies to permanent endowment, where the social landlord has no power to convert it into income and apply it, and to expendable endowment where the social landlord does have this power.
Equity	The residual interest in the assets of the entity after deducting all its liabilities.
Errors	Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: (a) was available when the financial statements for those periods were authorised for issue; and (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
Existing use value for social housing (EUV-SH) *	An opinion of the best price at which the sale of an interest in a property would have been completed unconditionally for cash consideration on the date of valuation, assuming: (a) a willing seller (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation (d) that no account is taken of any additional bid by a prospective purchaser with a special interest (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion (f) that the property will continue to be let by a body pursuant

Term	Definition
	to delivery of a service for the existing use (g) that at the valuation date any regulatory body in applying its criteria for approval would not unreasonably fetter the vendor's ability to dispose of the property to organisations intending to manage their housing stock in accordance with that regulatory body's requirements; (h) that properties temporarily vacant pending re-letting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession; and (i) that any subsequent sale would be subject to all the same assumptions as above.
Expenses	Decreases in assets or increases in liabilities that result in decreases in equity, other than those relating to distributions to equity investors.
Fair value²	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In the absence of any specific guidance provided in the relevant section of this FRS, the guidance in Section 2A Fair Value Measurement shall be used in determining fair value.
Fair value less costs to sell	The amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
Finance lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. A lease that is not a finance lease is an operating lease.
Financial asset	Any asset that is: (a) cash (b) an equity instrument of another entity (c) a contractual right: (i) to receive cash or another financial asset from another entity, or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or (d) a contract that will or may be settled in the entity's own equity instruments and: (i) under which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or

² For the purposes of applying the lessor accounting requirements in Section 20, fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Term	Definition
	(ii) that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.
Financial instrument	A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial liability	Any liability that is: (a) a contractual obligation: (i) to deliver cash or another financial asset to another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, or (b) a contract that will or may be settled in the entity's own equity instruments and is (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.
Financial position	The relationship of assets, liabilities and equity of an entity as reported in the Statement of Financial Position.
Financial statements	Structured representation of the financial position, financial performance and cash flows of an entity.
First time adopters (of FRS 102 and this SORP)	An entity that presents its first annual financial statements that conform to FRS 102 and this SORP, regardless of whether its previous accounting framework was adopted IFRS or another set of accounting standards.
First tranche disposal*	The initial portion of a shared ownership property sold to the lessee. In Scotland, the initial portion of a shared ownership property is sold to a 'sharing owner', not a lessee.
Fixed assets	Assets of an entity which are intended for use on a continuing basis in the entity's activities.
Gains	Increases in economic benefits that meet the definition of income but are not revenue.
General reserve*	Reserves which can be applied at the discretion of a social landlord for any purpose.
Going concern	An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

Term	Definition
Government grant	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.
Group	A parent and all of its subsidiaries.
Group reconstructions	Any one of the following arrangements: (a) the transfer of an equity holding in a subsidiary from one group entity to another; (b) the addition of a new parent entity to a group; (c) the transfer of equity holdings in one or more subsidiaries of a group to a new entity that is not a group entity but whose equity holders are the same as those of the group's parents; (d) the combination into a group of two or more entities that before the combination had the same equity holders; (e) the transfer of the business of one group entity to another; or the transfer of the business of one group entity to a new entity that is not a group entity but whose entity holders are the same as those of the group's parent.
HomeBuy*	A programme of loans to purchasers which came into effect in Wales in April 1995, currently funded by the Welsh Government, and in England in April 1999. In England from 1 April 2006 New Build HomeBuy was launched by the Department for Communities and Local Government as one of its three new low-cost ownership products under the HomeBuy initiative.
Impairment loss	The amount by which the carrying amount of an asset exceeds: (a) in the case of inventories, its selling price less costs to complete and sell; or (b) in the case of other assets, its recoverable amount.
Income	Increases in assets or decreases in liabilities that result in increases in equity, other than those relating to contributions from equity investors.
Income and expenditure	The total of income less expenses, excluding the components of other comprehensive income. In the for-profit sector this is known as profit or loss.
Income statement	Financial statement that presents all items of income and expense recognised in a reporting period excluding the items of other comprehensive income (referred to as the profit and loss account in the Companies Act 2006).
Intangible asset other than goodwill	An identifiable non-monetary asset without physical substance. Such an asset is identifiable when: (a) it is separable, i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or

Term	Definition
	(b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
Inventories	Assets: (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
Investment property	Property (land or a building, or part of a building, or both) held by the owner or by the lessee as a right-of-use asset, to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes, or (b) sale in the ordinary course of business.
Key management personnel	Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.
Lease	A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.
Lease payments	Payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following: (a) fixed payments (including in-substance fixed payments), less any lease incentives; (b) variable lease payments that depend on an index or a rate; (c) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (d) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. For the lessee, lease payments also include amounts expected to be payable by the lessee under residual value guarantees. Lease payments do not include payments allocated to non-lease components of a contract, unless the lessee elects to combine non-lease components with a lease component and to account for them as a single lease component. For the lessor, lease payments also include any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. Lease payments do not include payments allocated to non-lease components.

Term	Definition
Liability ³	A present obligation of the entity to transfer an economic resource as a result of past events.
Loans payable	Financial liabilities other than short-term trade payables (creditors) on normal credit terms.
Long leasehold	A lease whereby the purchaser has obtained the rights to occupy the land or building for a significant period of time (i.e. beyond that of a standard tenancy arrangement), typically 99 years or more.
Managing agents*	Organisations or individuals appointed to oversee the day-to-day operations and management of housing properties on behalf of the property owners or housing associations. Such arrangements may require the managing agent to pay a fee to the property owners or housing association.
Material	Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.
Measurement	The process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the Statement of Financial Position and Statement of Comprehensive Income.
Merger	An entity combination that results in the creation of a new reporting entity formed from the combining parties, in which the controlling parties of the combining entities come together in a partnership for the mutual sharing of risks and benefits of the newly formed entity and in which no party to the combination in substance obtains control over any other, or is otherwise seen to be dominant. All of the following criteria must be met for an entity combination to meet the definition of a merger: (a) no party to the combination is portrayed as either acquirer or acquiree, either by its board or management or by that of another party to the combination; (b) there is no significant change to the classes of beneficiaries of the combining entities or the purpose of the benefits provided as a result of the combination; and (c) all parties to the combination, as represented by the members of the board, participate in establishing the management structure of the combined entity and in selecting the management personnel, and such decisions are made on the basis of a consensus between the parties to the combination rather than purely by exercise of voting rights.

³ For the purposes of Sections 21 and Section 22 of FRS 102, a liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Term	Definition
Mixed tenure development scheme*	Mixed tenure development schemes where land is redeveloped, parts of which are developed for social rented housing and parts which may be developed for sale or shared ownership. Other schemes may provide different types of tenure. Often in the development of such schemes assets will be acquired at submarket price or donated by private developers or by public bodies.
Multi-employer (benefit) plans	Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that: (a) pool the assets contributed by various entities that are not under common control, and (b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.
Non-controlling interest	The equity in a subsidiary not attributable, directly or indirectly, to a parent.
Non-exchange transactions	A transaction whereby an entity receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
Notes to the financial statements	Notes containing information in addition to that presented in the Statement of Financial Position, Statement of Comprehensive Income, income statement (if presented), combined statement of income and retained earnings (if presented), statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.
Objective of financial statements	To provide information about the financial position, performance and, where required to be presented, cash flows of an entity that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.
Onerous contract	A contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.
Operating activities	The principal revenue producing activities of the entity and other activities that are not investing or financing activities.
Operating lease	A lease that does not transfer substantially all the risks and rewards incidental to ownership. A lease that is not an operating lease is a finance lease.
Ordinary share	An equity instrument that is subordinate to all other classes of equity instrument.
Other comprehensive income	Items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by FRS 102 or by law.

Term	Definition
Parent	An entity that has one or more subsidiaries.
Peppercorn lease*	An arrangement considered to have the legal form of a lease, but with nil or nominal consideration and is unlikely to meet the FRS 102 definition of a lease but is considered therefore to be a form of non-exchange transaction.
Performance	The relationship of the income and expenses of an entity, as reported in the Statement of Comprehensive Income.
Performance related condition (in respect of funding commitments, government grants and other non-exchange transactions)	A condition under which entitlement to resources is conditional on the performance of: (a) a specified activity; or (b) a particular level of service or units of output to be delivered.
Post-employment benefits	Employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.
Present value	A current estimate of the present discounted value of the future net cash flows in the normal course of business.
Prevailing market rate	The rate of interest that would apply to the entity in an open market for a similar financial instrument.
Probable	More likely than not.
Property developed for sale*	Housing properties that are constructed or rehabilitated by a social landlord with the intention of selling them.
Property, plant and equipment (tangible assets)	Tangible assets that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one period.
Public benefit entity ⁴	An entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any

⁴ The term 'public benefit entity' does not necessarily imply that the purpose of the entity is for the benefit of the public as a whole. For example, many PBEs exist for the direct benefit of a particular group of people, although it is possible that society as a whole also benefits indirectly. The important factor is what the primary purpose of such an entity is, and that it does not exist primarily to provide economic benefit to its investors. Organisations such as mutual insurance companies, other mutual co-operative entities and clubs that provide dividends or other economic benefits directly and proportionately to their owners, members or participants are not PBEs.

Some PBEs undertake certain activities that are intended to make a surplus in order to fund their primary activities. Consideration should be given to the primary purpose of an entity's (or group's) activities in assessing whether it meets the definition of a PBE.

PBEs may have received contributions in the form of equity, even though the entity does not have a primary profit motive. However, because of the fundamental nature of public benefit entities, any such contributions are made by the equity holders of the entity primarily to enable the provision of goods or services to

Term	Definition
	equity is provided with a view to supporting the entity's primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members.
Public benefit entity group	A public benefit entity parent and all of its wholly-owned subsidiaries.
Publicly traded (debt or equity instruments)	Traded, or in the process of being issued for trading, in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).
Qualifying entity (for the purposes of FRS 102 and this SORP)	A member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and that member is included in the consolidation as set out in section 474(1) of the Companies Act 2006.
Recognition	The process of capturing for inclusion in the statement of financial position or statement of comprehensive income an item that meets the definition of one of the elements of financial statements: (a) assets; (b) liabilities; (c) equity; (d) income; or (e) expenses. Recognition involves depicting the item in one of those statements – either alone or in aggregation with other items – in words and by a monetary amount, and including that amount in one or more totals in that statement.
Recoverable amount	The higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use.
Registered social housing provider*	A social landlord which is registered in one of the registers maintained by the Regulator of Social Housing (formerly the Homes and Communities Agency) or the Welsh Assembly Government under the Housing Act 1996 as amended, the Scottish Housing Regulator under the Housing (Scotland) Act 2001 or the Department for Social Development (Northern Ireland) under the Housing (Northern Ireland) Order 1992. Registered social housing providers are also referred to as social landlords in this SORP.
Regulatory body*	In England, the Regulator of Social Housing (formerly the Homes and Communities Agency); in Wales, The Welsh Assembly Government; in Scotland, the Scottish Housing Regulator; and in Northern Ireland, the Department for Social Development.

beneficiaries rather than with a view to a financial return for themselves. This is different from the position of lenders; loans do not fall into the category of equity.

Term	Definition
Related party	A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity). (a) A person or a close member of that person's family is related to a reporting entity if that person: (i) has control or joint control over the reporting entity; (ii) has significant influence over the reporting entity; or (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. (b) An entity is related to a reporting entity if any of the following conditions apply: (i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others). (ii) one entity is an associate or joint venture of the other entity (or of a member of a group of which the other entity is a member). (iii) both entities are joint ventures of the same third entity. (iv) one entity is a joint venture of a third entity, and the other entity is an associate of the third entity. (v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity. (vi) the entity is controlled or jointly controlled by a person identified in (a). (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity). (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.
Related party transaction	A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.
Reporting date	The end of the latest period covered by financial statements or by an interim financial report.
Reporting period	The period covered by financial statements or by an interim financial report.
Residual value (of an asset)	The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
Restriction	A requirement that limits or directs the purposes for which a resource may be used that does not meet the definition of a performance-related condition.

Term	Definition
Restricted reserve*	Reserves which are subject to external restrictions governing their use, for example reserves which are subject to specific trusts or limitations and are only to be used in accordance with the requirements of the funder or regulatory body.
Restructuring	A restructuring is a programme that is planned and controlled by management and materially changes either: (a) the scope of a business undertaken by an entity; or (b) the manner in which that business is conducted.
Revenue	Income arising in the course of an entity's ordinary activities.
Right-of-use asset	An asset that represents a lessee's right to use an underlying asset for the lease term.
Separate financial statements	Those presented by a parent in which the investments in subsidiaries, associates or jointly controlled entities are accounted for either at cost or fair value rather than on the basis of the reported results and net assets of the investees. Separate financial statements are included within the meaning of individual financial statements.
Service potential	The capacity to provide services that contribute to achieving an entity's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.
Shared ownership*	In England, Wales and Northern Ireland this means housing schemes where the social landlord has granted a shared ownership lease as defined in section 622 of the Housing Act 1985 and in Scotland this means schemes allowable under article 24 of the Housing (Scotland) Act 2010.
Significant influence	Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies.
Staircasing*	The sale of an additional tranche of a shared ownership lease to the lessee.
Statement of cash flows	Financial statement that provides information about the changes in cash and cash equivalents of an entity for a period, showing separately changes during the period from operating, investing and financing activities.
Statement of changes in equity	Financial statement that presents the changes in equity for a period, showing an entity's profit or loss for a reporting period, other comprehensive income for the period, the effects of changes in accounting policies and corrections of material errors recognised in the period, and the amounts of investments by, and dividends and other distributions to, investors during the period.
Statement of comprehensive income	Financial statement that presents all items of income and expense recognised in a period, including those items recognised in determining income and expenditure (which is a subtotal in the Statement of Comprehensive Income) and items of other comprehensive income. This SORP restricts the choice available in FRS 102 and requires social landlords to present a Statement of Comprehensive

Term	Definition
	Income.
Statement of financial position	Financial statement that presents the relationship of an entity's assets, liabilities and equity as of a specific date (referred to as the balance sheet in the Companies Act 2006).
Stock swap*	An agreement entered into by social landlords 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.
Subsidiary	An entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as a parent).
Termination benefits	Employee benefits provided in exchange for the termination of an employee's employment as a result of either: (a) an entity's decision to terminate an employee's employment before the normal retirement date; or (b) an employee's decision to accept voluntary redundancy in exchange for those benefits.
Transaction costs (financial instruments)	Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, or the issue or reacquisition of an entity's own equity instrument. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial asset or financial liability, or had not issued or reacquired its own equity instrument.
Turnover	The amounts derived from the provision of goods and services after deduction of: (a) trade discounts (b) value added tax; and any other taxes based on the amounts so derived.
Underlying asset	An asset that is the subject of a lease, for which the right to use that asset has been provided by a lessor to a lessee.
Useful life	The period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.
Value in use	The present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Appendix – Example primary statements

The following example primary statements are for illustrative purposes only. Social landlords should ensure they apply the requirements of Chapter 3 of this SORP and Sections 3, 4, 5, 6 and 7 of FRS 102 in preparing primary statements.

Consolidated Statement of Comprehensive Income

	Year ended 31 March 20YY	Year ended 31 March 20XX
Income		
Operating expenditure		
Gain/(loss) on disposal of housing properties		
Operating surplus/(deficit)		
Interest receivable		
Interest and financing costs		
Movement in fair value of financial instruments		
Surplus/(deficit) before tax		
Taxation		
Surplus/(deficit) for the year		
Actuarial (loss)/gain in respect of pension schemes		
Change in fair value of hedged financial instrument		
Total comprehensive income for the year		

Paragraph 5.9 of FRS 102 permits additional line items, headings and subtotals in the Consolidated Statement of Comprehensive Income where such presentation is relevant to an understanding of an entity's financial statements. Therefore, additional line items should be included where the social landlord believes this is of relevance to users of the financial statements, for example an impairment loss included within operating costs shall be presented as a subheading within that line of the financial statements where it is material.

Paragraph 5.9B of FRS 102 requires that if an entity elects to disclose 'operating profit' the entity should ensure that the amount disclosed is representative of activities that would normally be regarded as 'operating'. For example, it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs, profits or losses on the sale of property, plant and equipment (including housing properties), investment property and intangible assets, and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation and amortisation expenses. Profits or losses on the disposal of a discontinued operation shall be excluded from operating profit.

As explained further in paragraph 3.14 of this SORP, a social landlord may disclose judgements and their accounting policy for determining what is included and excluded from 'operating surplus/(deficit)' or an equivalent subtotal on the Statement of Comprehensive Income.

Consolidated Statement of Financial Position

	Year ended 31 March 20YY		Year ended 31 March 20XX	
	Consolidated £'000	Entity £'000	Consolidated £'000	Entity £'000
Fixed assets				
Intangible assets and goodwill				
Tangible fixed assets – housing properties				
Other tangible fixed assets				
Investments				
Homebuy loans receivable				
Investment in joint ventures				
Investments in associates				
Current assets				
Stock				
Trade and other debtors				
Investments				
Cash and cash equivalents				
Less: Creditors: amounts falling due within one year				
Net current assets/liabilities				
Total assets less current liabilities				
Creditors: amounts falling due after more than one year				
Provisions for liabilities Pension provision				
Other provisions				
Total net assets				
Reserves				
Income and expenditure reserve				
Revaluation reserve				
Restricted [and/or endowment] reserve				
Total reserves				
* The pension provision does not include any liability recognised in respect of contractual agreements to fund past service deficits of a pension plan in accordance with paragraph 13.16 of this SORP.				

Consolidated Statement of Changes in Reserves

	Income and expenditure reserve	Restricted reserve	Revaluation reserve	Total excluding non- controlling interest	Non- controlling interest	Total including non- controlling interest
Balance at 1 April 20WW						
Surplus/(deficit) from statement of comprehensive income						
Transfer from revaluation reserve to income and expenditure reserve						
Transfer of restricted expenditure from unrestricted reserve						
Balance at 1 April 20XX						
Surplus/(deficit) from statement of comprehensive income						
Transfer from revaluation reserve to income and expenditure reserve						
Transfer of restricted expenditure from unrestricted reserve						
Balance at 31 March 20YY						

Consolidated Statement of Cash Flows

	Year ended 31 March 20YY	Year ended 31 March 20XX
Net cash generated from operating activities (see Note 1)		
Cash flow from investing activities		
Purchase of tangible fixed assets		
Proceeds from sale of tangible fixed assets		
Grants received		
Interest received		
Cash flow from financing activities		
Interest paid		
Interest element of finance lease rental payment		
New secured loans		
Repayments of borrowings		
Capital element of finance lease rental payments		
Withdrawal from deposits		
Net change in cash and cash equivalents		
Cash and cash equivalents at beginning of the year		
Cash and cash equivalents at end of the year		
Note 1	Year ended 31 March 20YY	Year ended 31 March 20XX
Cash flow from operating activities		
Surplus for the year		
Adjustments for non-cash items		
Depreciation of tangible fixed assets		
Amortisation of intangible assets		
Decrease/(increase) in stock		
Decrease/(increase) in trade and other debtors		
Increase/(decrease) in trade and other creditors		
Increase/(decrease) in provisions		
Receipt of donated land/assets		
Pension costs less contributions payable		
Carrying amount of tangible fixed asset disposals		
Share of operating surplus/(deficit) in joint venture		
Share of operating surplus/(deficit) in associate		
Adjustments for investing or financing activities:		
Proceeds from the sale of tangible fixed assets		
Government grants utilised in the year		
Interest payable		
Interest received		