



Proposed guidance on accounting for initial repair period established by new shared ownership model and Right to Shared Ownership

Housing SORP public consultation

1. Invitation to comment

We invite stakeholders to provide responses to the questions set out on page 7 and share their views on our proposed guidance (included in appendix 1 and 2) during the 12-week consultation period, closing on 18 April 2023. Please send comments to policy@housing.org.uk.

The Secretariat to the SORP Working Party (service provided by The National Housing Federation) will run the consultation process. The Secretariat will engage with the wider National Housing Federation, Community Housing Cymru, the Northern Ireland Federation of Housing Associations and the Scottish Federation of Housing Associations to promote this consultation to registered social housing providers (note that the new shared ownership model only applies in England).

The National Housing Federation (NHF), in its role as Secretariat will collate and, with the help of the technical secretariat, either accept or reject recommended changes. The Housing SORP making-body will adopt a transparent process and, accordingly, consultation responses shall be made publicly available (via the NHF website) unless confidentiality is requested by the respondent. The SORP-making body shall publish (via the NHF website) all responses to this public consultation. The SORP-making body will aim to publish responses as soon as possible and within 10 working days of receipt. Final guidance will subsequently be published by the Housing SORP-making body.

2. Analysis of the matter

Overview of new Shared Ownership model

In November 2020 the government consulted on a new model for shared ownership. Details and responses to the consultation can be [found on the government website](#).

Changes in the model for shared ownership came into effect from 1 April 2021. This model will:

1. Reduce the minimum initial share from 25% to 10%.
2. Introduce a new gradual staircasing offer, to allow people to buy additional shares in their home in 1% instalments with heavily reduced fees.
3. Introduce a 10-year period during which the shared owner will receive support from their landlord to pay for essential repairs.
4. Give Shared Ownership leaseholders (shared owners) more control when they come to sell their home.

Overview of Right to Shared Ownership

The government introduced the concept of “Right to Shared Ownership” in the Social Housing White Paper 2021. The new Right to Shared Ownership will give social tenants living in new rented homes the opportunity to purchase a stake in their home and then purchase further shares when they can afford to do so.

This guidance has been published to provide providers with an initial overview of the scheme: [Right to Shared Ownership: initial guidance for registered providers](#)

Full operational guidance for the scheme, including the full responsibilities of providers, is published by Homes England as part of the [Capital Funding Guide](#).

The Right to Shared Ownership will allow eligible tenants who occupy eligible properties to purchase their social or affordable rented property on Shared Ownership terms.

3. SORP working party process for developing guidance

The key changes to the shared ownership model and Right to Shared Ownership were discussed and considered by the Housing SORP working party (on behalf of the SORP-making body).

It was agreed by the working party that the changes to the shared ownership model in points 1, 2 and 4 (as set out in section 1) do not change the fundamental nature of shared ownership and therefore the current accounting treatment set out in the Statement of Recommended Practice for registered social housing providers (the “Housing SORP”) will not change.

The key impact for financial reporting was considered to be point 3 for the shared ownership model where the working party sought to develop guidance to support preparers of financial statements in the sector alongside guidance on the new Right to Shared Ownership requirement.

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

4. New Shared Ownership model - key matters for consideration and basis of conclusion

The working party established the following key considerations:

- I. Is there an obligation that didn’t exist before?
- II. If yes, should a liability be recognised and if so when?
- III. If so, how should that liability be measured?

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

Considerations were based on UK and Ireland Generally Accepted Accounting Practice.

I. Is there an obligation that didn’t exist before?

The short answer reached was – in some cases.

Understanding the obligations under the old leasing model

The responsibility for repairs under the shared ownership model is covered in the model leases. The [Capital Funding Guide](#) provides “Key information about Shared Ownership” documents for shared owners.

Model leases are provided for the pre-2021 period – these are provided for flats and houses:

- [Shared Ownership Lease of a House](#)
- [Shared Ownership Lease of a Flat](#)

The government also provides additional key information about the various responsibilities and obligations for shared owners:

- [Key information for shared owners of houses in England](#)
- [Key information for shared owners of flats in England](#)

Under the old model lease both the lease for houses and the lease for flats contained a similar repair clause.

House

3.5 To repair and keep the Premises in good and substantial repair and condition (except in respect of damage by risks insured under clause 4.2 unless the insurance money is irrecoverable by reason of any act or default of the Leaseholder).

Flat

3.4 To repair and keep the Premises in good and substantial repair and condition (except in respect of damage by risks insured under clause 5.2 unless the insurance money is irrecoverable by reason of any act or default of the Leaseholder) provided that the Leaseholder shall not be liable by virtue of this clause 3.4 to execute or do any works which fall within the scope of clause 5.3.

However, the definition of premises in each of these leases differs.

In respect of houses schedule 1 of the lease defines premises as:

- all buildings, erections and structures on the Premises from time to time;
- the Service Media within and exclusively serving the Premises; and
- appurtenances, fixtures, fittings and rights granted by this Lease, and improvements and additions made to, and fixtures, fittings and appurtenances in, the Premises.

In respect of the lease on flats, schedule 1 defines premises as:

- [the inside [and outside] of the windows and other lights and the frames, glass, equipment and fitments relating to windows and lights of the Premises];
- the doors, door frames, equipment, fitments and any glass relating to the doors of the Premises [including/excluding the external door(s)];
- the internal plaster or other surfaces of load bearing walls and columns within the Premises and of walls which form boundaries of the Premises;
- non load bearing walls completely within the Premises;
- the flooring, raised floors and floor screeds down to the joists or other structural parts supporting the flooring of the Premises;
- the plaster or other surfaces of the ceilings and false ceilings within the Premises and the voids between the ceilings and false ceilings;
- the Service Media within and exclusively serving the Premises; and
- appurtenances, fixtures, fittings and rights granted by this Lease, and improvements and additions made to, and fixtures, fittings and appurtenances in, the Premises.

The Premises do not include:

- the load bearing framework of the Building;
- the external fabric of the Building [(excluding any windows and doors included in paragraph 2 above)]
- all other structural parts of the Building including the roof, foundations, joists and external walls of the Building; and
- Service Media and machinery and plant within (but not exclusively serving) the Premises.

Clause 5.3 of the lease of flats highlights the aspects that will be maintained by the landlord. However, these will be financed by a service charge (as per section 7 of the lease).

Subject to:

- (a) clause 6.1; and**
- (b) payment of the Specified Rent and Service Charge;**

the Landlord shall maintain, repair, redecorate, renew and (in the event in the Landlord's reasonable opinion such works are required) improve:

5.3.1 the load bearing framework, the external fabric of the Building and all other structural parts of the Building, the roof, foundations, joists and external walls of the Building and Service Media and machinery and plant within (but not exclusively serving) the Premises and all parts of the Building which are not the responsibility of the Leaseholder under this Lease or of any other leaseholder under a similar lease of other premises in the Building;

5.3.2 the Service Media, cisterns and tanks and other gas, electrical, drainage, ventilation and water apparatus and machinery in under and upon the Building (except such as serve exclusively an individual flat in the Building and except such as belong to any utility supply authority or company); and

5.3.3 the Common Parts.

Under the previous model of shared ownership, the obligation for repairs and maintenance responsibilities (both internal and major repairs beyond the new homes guarantee) transferred to the shared owner on the purchase of the 1st tranche (for both flats and houses). These costs were either borne directly by the shared owner (in respect of repairs to houses and for flats in relation to internal general repairs and maintenance) or recharged through property service charges in respect of external and structural repairs for flats.

Whilst the mechanism for paying for these costs differs between houses (direct to tradesperson/contractor) and flats (cost of tradesperson/contractor recharged through service charge), the obligation is the same.

Responsibility for repairs under the new shared ownership model

AHP 2021 – 2026 leases are provided:

- [Shared Ownership Lease of a House](#)
- [Shared Ownership Lease of a Flat](#)

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

The model lease in the government's Capital Funding Guide states:

..... the Landlord covenants to provide or to procure the provision of External and Structural Repairs at no cost to the Leaseholder, including not requiring the Leaseholder to contribute to the cost of any excess or administration fees payable under the terms of the Warranty or Insurance Policy in relation to any claim by the Landlord (if any).

.....during the Initial Repair Period the Leaseholder may apply to the Landlord for a contribution towards the costs incurred by the Leaseholder for any Qualifying General Repairs and Maintenance Works required during the relevant Year.

Having considered the model leases there is a difference in conclusion between flats and houses as to the obligation, due to the distinction between "building" and "premises" in each lease.

Flats – In the case of flats, the Building remains in the landlord's ownership – the shared ownership lease relates to the Premises (as defined above – this has not changed in the new model lease), which excludes the load bearing framework of the building, the external fabric of the building, all other structural parts of the building including the roof, foundations, joists and external walls of the building and the service media and machinery and plant within (but not exclusively serving) the premises.

External and Structural repairs are, by definition, repairs to the Building and hence to provide for such repairs would be to provide for repairs to an asset wholly-owned by the landlord. Therefore, there is no new obligation on the landlord to repair the Building which didn't already exist under the previous model.

Although the landlord does have the ability (under the old model lease and in the new model lease outside of the 10-year initial repair period) to charge these costs on to the leaseholder through the service charge, to provide for these costs and related income and under the new lease, a loss of income, would by virtue be a provision for future losses, which is not allowable under FRS 102.

Houses – By contrast, the Premises in the model lease for houses are described to cover the entire building of the property with no exclusions. As such under the new shared ownership model the landlord has an obligation to repair assets that are owned (or partly owned) by the leaseholder.

Conclusion - Is there an obligation that didn't exist before?

External and structural repairs

Having considered the model leases there is a difference in conclusion between flats and houses due to the distinction between “building” and “premises” in each lease.

Flats – In the case of flats, the Building remains in the landlord's ownership – the shared ownership lease relates to the Premises, which excludes the load bearing framework of the building, the external fabric of the building, all other structural parts of the building including the roof, foundations, joists and external walls of the building and the service media and machinery and plant within (but not exclusively serving) the premises.

External and Structural repairs are, by definition, repairs to the Building and hence to provide for such repairs would be to provide for repairs to an asset wholly-owned by the landlord.

Therefore, there is no new obligation on the landlord to repair the Building which didn't already exist under the previous model.

Houses – By contrast, the Premises in the model lease for houses are described to cover the entire building of the property with no exclusions.

As such under the new shared ownership model the landlord has an obligation to repair assets that are owned (or partly owned) by the leaseholder.

Qualifying general repairs and maintenance

The new requirement places an obligation on the landlord to contribute towards ‘qualifying general repairs and maintenance’ during the ‘initial repair period’ (as defined by the capital funding guide model lease). Previously the obligation for these repairs was transferred to the leaseholder on sale (for both flats and houses).

As such under the new shared ownership model the landlord has an obligation to repair assets that are owned (or partly owned) by the leaseholder.

This obligation (External and Structural and Qualifying repairs) is distinct from a landlord's responsibility in relation to repairs and maintenance on any other form of tenure (such as general needs rental) due to the obligating event being the sale of the property including the commitment to cover the stipulated repairs costs. There should not be any read across to other arrangements.

II. Is there a liability that should be recognised and if so when?

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

- (a) the entity has an obligation at the reporting date as a result of a past event;
- (b) it is probable (ie 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.”

As noted in (I) above it has been established that there is an obligating event.

- External and structural repairs – Houses
- Qualifying general repairs and maintenance – Houses and flats

The key issue relevant to this question is that having established that an obligation exists, providers would need to apply Section 21 of FRS102, and apply paragraph 21.4 to determine whether the recognition criteria are met.

The key questions therefore are

- a) it is probable (ie more likely than not) that the entity will be required to transfer economic benefits in settlement; and
- b) the amount of the obligation can be estimated reliably.

Conclusion - Is there a liability that should be recognised and if so when?

In respect of these questions each housing provider will need to consider their own individual data to make this assessment. However, we were able to note some areas for consideration when making these considerations as set out in section 4 and 6 of the guidance.

We also needed to consider at what point a provision should be recognised if the criteria of FRS102 para 21.4 is met.

The obligating event being the sale of a shared ownership property with the specific repair commitment clauses within the lease, which gives rise to a legal obligation conveyed through the lease agreement as imposed by the government grant conditions. It has been concluded that the obligation exists at the point of the property sale. The obligation should be recognised at this point, and reflected in the balance sheet at the next reporting date.

III. How should that liability be measured?

FRS 102 section 21 paragraph 21.7 states that “**An entity shall measure a provision at the best estimate of the amount required to settle the obligation at the reporting date. The best estimate is the amount an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.**”

The key issues relevant to this question are:

- Should the provision be measured based on 100% of the cost of the repair or restricted to percentage of the property that continues to be held by the landlord (eg not staircased); and
- Should the provision be measured based on the total costs expected to be payable during the initial repair period or spread in some way.

Conclusion - How should that liability be measured?

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

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

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

5. Right to Shared Ownership – key matters for consideration and basis of conclusion

Key considerations

The Housing SORP working party considered the new provision and the accounting treatment and have sought to issue guidance to assist preparers of financial statements.

Basis of conclusion

A housing provider must determine the intended use for each property (or class of properties) and section 8.4 of the Housing SORP provides further guidance for making this determination.

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

Conversely where the original intended use for a property is shared ownership the housing provider should follow the accounting treatment for Shared Ownership set out in paragraphs 8.31 to 8.40.

6. Questions to be considered

1. Do you agree with the interpretation of the model leases and the conclusions reached in relation to recognition of a provision?
2. Do you agree with the interpretation of new requirement for Right to Shared Ownership and the conclusions reached in relation to the accounting treatment?
3. Do you consider that this guidance will create any commercial or operational issues for your organisation?
4. Based on current data for your own organisations do you consider this will have any significant financial or reporting impact?
5. Do you find the guidance understandable and relevant?
6. Do you agree that the proposed guidance should be incorporated into the next version of the Housing SORP (during the next planned revision)?
7. Do you have any other comments or feedback in relation to the proposed guidance?

Draft guidance for consultation – New Shared Ownership model

1. Overview of new model

In November 2020 the government consulted on a new model for shared ownership. Details and responses to the consultation can be found on the [government website](#).

Changes in the model for shared ownership came into effect from 1 April 2021. This model will:

1. Reduce the minimum initial share from 25% to 10%
2. Introduce a new gradual staircasing offer, to allow people to buy additional shares in their home in 1% instalments with heavily reduced fees
3. Introduce a 10-year period during which the shared owner will receive support from their landlord to pay for essential repairs
4. Give Shared Ownership leaseholders (shared owners) more control when they come to sell their home

The changes to the model in points 1, 2 and 4 do not change the fundamental nature of shared ownership and therefore the current accounting treatment set out in the Statement of Recommended Practice for registered social housing providers (the “Housing SORP”) will not change.

This guidance is provided in relation to point 3 above. This guidance relates only to the new shared ownership model (by reference to the Capital Funding Guide) and there should be no read across to any other arrangements.

2. Major repairs (External and Structural repairs)

During the ‘Initial Repair Period’ (being 10 years from the date of the lease or until the shared owner reaches 100% ownership, whichever is sooner), the landlord is responsible for the cost of essential repairs to:

- The load bearing framework;
- The external fabric;
- Service media; and
- Other structural parts such as the roof, foundations, joists and external walls.

More details about what is covered is detailed in the [model leases and guidance for shared ownership](#).

Landlords are not expected to cover:

- Any repair costs that do not meet the definition of “External and Structural Repairs” (as defined by the lease);
- Any repair costs after the 10 year ‘initial repair period’;
- Any repair costs covered by the insurance, building warranty or any other guarantee;
- Any repair costs after full staircasing (100% ownership by Shared Owner) even if this occurs in during the 10 year ‘initial repair period’.

3. Internal repairs (Qualifying general repairs and maintenance)

Under the terms of the Lease, the Landlord is not responsible for general repairs to the internal premises and such works remain the Leaseholder's responsibility under the Lease. However, during the ‘Initial Repair Period’ the Leaseholder may apply to the Landlord for a contribution (up to £500 per year) towards the costs incurred by the Leaseholder for any Qualifying General Repairs and Maintenance Works required during the relevant Year.

Shared owners will have the flexibility to roll over a maximum of 1 years' worth of unused repairs expenditure into the following year.

The landlord obligation to the shared owner transfers with ownership as part of any sale by the shared owner during the initial repair period.

4. Obligating event

FRS 102 paragraph 21.4 requires that "An entity shall recognise a provision only when:

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

Whether there is an obligation, and a provision shall be made, has been considered for each aspect of the repair requirement:

- External and structural repairs

Having considered the model leases there is a difference in conclusion between flats and houses due to the distinction between "building" and "premises" in each lease.

Flats – In the case of flats, the Building remains in the landlord's ownership – the shared ownership lease relates to the Premises, which excludes the load bearing framework of the building, the external fabric of the building, all other structural parts of the building including the roof, foundations, joists and external walls of the building and the service media and machinery and plant within (but not exclusively serving) the premises.

External and Structural repairs are, by definition, repairs to the Building and hence to provide for such repairs would be to provide for repairs to an asset wholly-owned by the landlord. Therefore, there is no new obligation on the landlord to repair the Building which didn't already exist under the previous model.

Houses – By contrast, the Premises in the model lease for houses are described to cover the entire building of the property with no exclusions. As such under the new shared ownership model the landlord has an obligation to repair assets that are partly owned by the leaseholder.

This is an obligation on the landlord to fund the full cost of the defined external and structural repairs during the 'initial repair period' regardless of the percentage share of the property initially sold or owned by the Shared Owner at the reporting date (except for when full staircasing is reached and 100% ownership rests with the Shared Owner, at which time the landlord obligation ceases).

- Qualifying general repairs and maintenance

The new requirement places an obligation on the housing provider to contribute towards 'qualifying general repairs and maintenance' during the 'initial repair period' (as defined by the capital funding guide model lease). Previously the obligation for these repairs was transferred to the leaseholder.

Therefore, the sale of the first tranche of the shared ownership property under a lease with these specific repair obligation clauses is considered to be an obligating event for the purpose of recognising a repair provision in accordance with Section 21 of FRS 102. (A contractual obligation arises between the purchaser (Shared Owner) and the vendor (Landlord)).

This is an obligation on the landlord to fund the full cost of qualifying repairs during the 'initial repair period' regardless of the percentage share of the property initially sold or owned by the Shared Owner at the reporting date (except for when full staircasing is reached and 100% ownership rests with the Shared Owner, at which time the landlord obligation ceases).

This obligation (External and Structural and Qualifying repairs) is distinct from a landlord's responsibility in relation to repairs and maintenance on any other form of tenure (such as general needs rental) due to the

obligating event being the sale of the property including the commitment to cover the stipulated repairs costs. There should not be any read across to other arrangements.

	Obligation exists?	
	Houses	Flats
External and structural	✓	
Qualifying general repairs and maintenance	✓	✓

5. Initial recognition – External and Structural repairs and Qualifying general repairs and maintenance

Having first established if there is an obligation (as covered in section 4), at the point of sale of a shared ownership interest (i.e. 1st tranche sale), with the specific landlord repair commitment clauses contained within the lease as per the model lease, the landlord will need to consider if it is probable (i.e. more likely than not) that there will be an outflow of economic benefit to settle the repair obligation and whether the amount of the obligation can be estimated reliably.

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 expected costs will need to be included as a cost of the sale (at point of 1st tranche disposal) and a provision created in the Statement of Financial Position.

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 should be made in accordance with FRS 102, paragraph 21.15.

Where a provision has not been recognised at the point of initial 1st tranche sale, the Provider should consider at each reporting date whether there are any changes to the assumptions that lead them not to recognise a provision that would now indicate that a provision should be recognised.

6. Measurement

In accordance with FRS 102 – Section 21 *Provisions and Contingencies* the housing provider shall measure a provision at the best estimate of the amount required to settle the obligation at the reporting date. The best estimate is the amount an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.

- a) When the provision involves a large population of items, the estimate of the amount reflects the weighting of all possible outcomes by their associated probabilities. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.
- b) When the provision arises from a single obligation, the individual most likely outcome may be the best estimate of the amount required to settle the obligation. However, even in such a case, the entity considers other possible outcomes. When other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount.

It is worth noting that the calculation of the provision is a matter of judgement and a judgement that each housing provider will need to make on an annual basis. Evidence to form an opinion on the likelihood of qualifying repairs being required may be particularly difficult observing that in the case of External and Structural repairs, the provision will exclude costs covered by the new build guarantee/warranty, the leaseholder insurance and any other warranty or guarantee.

It may be that the judgement changes once more evidence and data is available following implementation of this model. Housing providers may also conclude that these provisions are immaterial in the context of their financial statements.

Providers should carry out a review of the provision's carrying value at each reporting date to ensure that it remains the best estimate of the amount the provider would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. Reassessment will also take into account

events and work on the property that have happened since initial recognition, that might impact the estimate of future costs over the remainder of the initial repair period.

Probability

Having first identified all possible qualifying repairs, a Landlord should consider the probability of those occurring. In accordance with FRS 102 paragraph 21.4 for a provision to be recognised the outflow of economic benefit must be probable (i.e. more likely than not).

Although this is a new obligation so exact data is not available, housing providers will have significant historical data on the frequency and costs of repairs for their property portfolio. As noted in the measurement section above in accordance with FRS 102, paragraph 21.7(a), the housing provider should consider probability in the calculation of the provision.

Over time the assessment of likelihood of certain types of qualifying repairs occurring can be enhanced based on data of actual outlay.

Housing providers should consider all possible outcomes including:

- a) there are no external and structural repairs required in the initial repair period which are not covered by the building warranty or any other guarantee;
- b) Shared owners do not utilise their allowance for qualifying general repairs and maintenance; and
- c) the shared owner reaches 100% ownership and the initial repair period expires before the full 10 year period ends.

Discounting

FRS 102 paragraph 21.7 states “When the effect of the time value of money is material, the amount of a provision shall be the present value of the amount expected to be required to settle the obligation.”

7. Example

Scenario

Property (being a house) developed for shared ownership (under new model) and 1st tranche sold on completion of development:

- Overall cost £250,000
- 25% first tranche sold for £80,000 (with cost of sale before taking into account any repair obligation being £62,500)
Estimated that cost to the landlord of ‘qualifying general repairs and maintenance’ amount to £300 per year for 10 years (£3,000) (Please note this is a purely simplistic representation for example purposes and providers will need to consider the estimate of cost in each year and the fact that this may not be evenly weighted over the initial repair period.

An alternative profile may be appropriate depending on the data available i.e. if it is expected that the repair claims will increase over the period that the property is occupied then the estimate should be profiled accordingly. Similarly, a provider may conclude that the claims reduce over the initial repair period.

The shared owner has the choice in who they can engage to carry out repairs in line with the requirements set out on the government guidance or they can accept the repair is carried out by the landlord’s in-house repairs team. Therefore, the provision is estimated at the expected cost to settle the repair claim.

- Major repairs not covered by new build guarantee/warranty or any other warranty/guarantee in the initial repair period are estimated to be £8,000 (see footnote)
- The time value of money for both provisions is considered immaterial.

On disposal we have established a provision for the repair obligation of £3,000 for qualifying general repairs and maintenance and £8,000 for major repairs.

	Revenue		Cost of sales	Stock	Cash	Provisions
Dr					80,000	
Cr	80,000					
Dr			62,500			
Cr				62,500		
Dr			3,000			
Cr						3,000
Dr			8,000			
Cr						8,000

Profit on disposal of 1st tranche £6,500

Footnote:

The example demonstrates the accounting treatment for one property. However, when the provision for the costs of qualifying repairs involves a large population of items, the estimate should be calculated using the guidance in paragraph 21.7(a) of FRS 102 reflecting the weighting of all possible outcomes and their associated probabilities. Appendix 1 illustrates the measurement of a provision using the methodology in accordance with FRS 102 paragraph 21.7(a).

Annual unwinding of qualifying general repairs and maintenance provision

At each reporting date the housing provider will need to review the estimation to ensure this still represents best estimate of the future costs for qualifying repairs.

In addition, in relation to the provision for contribution to qualifying general repairs and maintenance the provision will unwind over the initial repair period as spent or as carryover expires (leaseholders can carryover un-utilised allowance for one year).

The amount utilised is the actual cost; being either the cost to the provider of carrying out the repair directly or the cost of reimbursing the shared owner's repair claim.

An example of unwinding internal repairs is shown below. The landlord has provided £3,000 as the estimated spend over the initial repair period.

End of year	1	2	3	4	5	6	7	8	9	10
Resident Repairs Allowance										
Brought forward	0	500	500	250	500	500	500	20	500	500
Allowance	500	500	500	500	500	500	500	500	500	500
Utilised		(50)	(750)	0	(99)	(435)	(980)	0	(400)	(235)
Un-utilised prior year allowance released	0	(450)	0	(250)	(401)	(65)	0	(20)	(100)	(765)
Carry forward	500	500	250	500	500	500	20	500	500	0
Association Provision account										
Opening provision	3,000	3,000	2,700	2,400	2,100	1,800	1,500	1,520	1,500	1,000
Utilised - Cr to provision A/C	0	(50)	(750)	0	(99)	(435)	(980)	0	(400)	(235)
Less release of unutilised allowance from PY Cr to SOCI)		(250)	0	(300)	(201)		0	(20)	(100)	(765)
Re-assessment of remaining provision – Dr to SOCI and Cr to provision			450			135	1,000			
Carry forward Provision	3,000	2,700	2,400	2,100	1,800	1,500	1,520	1,500	1,000	0
Cumulative SOCI debit or (credit) for the period										
	(3,000)	250	(450)	300	201	(135)	(1,000)	20	100	765

The top section shows the amount that can be claimed each year, with unused amounts carried forward. The second section shows the effect on the provisions (noting that in this example the provider has based their provision on an estimated cost to the landlord of £300 per year not the full available leaseholder claim allowance of £500).

At the end of each reporting period the provider should reassess the provision to ensure it remains the best estimate of cost to settle the obligation in the remaining years based on evidence and data available (such as data on the frequency and value of claims made to date).

In this example up to year 7 the provider has concluded that a provision based on costs of £300 per annum is appropriate and as such has adjusted the provision at the reporting date to accord with the remaining years in the initial 10-year repair period.

In this example a reanalysis of the providers data suggests that the amount of repair claims will increase in later years. As such the estimated cost per year in the provision will need to be increased, and the provision remeasured and adjusted (as per year 7 of the example above where the provision has been increased to a provision of £1500 (plus a carry forward of unutilised claim for year 7 of £20) based on tenants making the full £500 claim per annum for the remaining 3 years of the Initial Repair Period. The provider continues to recognise the ability to carry forward any unutilised allowance by a year.

Example 1 demonstrates the accounting treatment on an individual property basis, however where a number of properties are sold under the new shared ownership scheme, a housing provider may consider it appropriate to utilise a portfolio approach to the measurement and unwinding of provisions.

Major repairs provision

At the end of the 10-year Initial Repair Period a provision may remain for any open repairs that haven't been settled at the end of the initial repair period. The remaining provision should be released to the extent there is no amount outstanding for existing repair work covered by the repair period. Provision will be released as a credit to the SOCI.

8. Any subsequent disposal

Where a shared ownership property is sold by a leaseholder to another leaseholder within the Initial Repair Period the obligation is not extinguished and the landlord continues to be obligated to the new leaseholder for the remainder of the Initial Repair Period.

Staircasing does not impact on the obligation or provision (as the landlord is obligated to cover the full cost regardless of percentage ownership retained), with the exception of where full staircasing occurs within the 10-year initial repair period. Where a property is fully staircased within the 10-year initial repair period, the obligation ceases and as such the provision will be released.

Should a shared ownership property be transferred to another housing provider during the 10-year initial repair period (by way of sale or stock transfer), the landlord obligation to repair transfers with ownership. The provision will be released and the new housing provider will recognise any provision if considered appropriate by following the guidance set out above.

Draft guidance for consultation – Right to Shared Ownership

Initial recognition

The housing provider must determine the intended use for each property (or class of properties). Section 8.4 of the SORP provides further guidance for making this determination.

Where a property is developed for social/affordable rent, albeit with the Right to Shared Ownership (RTSO) under the new model, the property should initially be recognised within Property, Plant and Equipment as General Needs Rental based on the original intended use of the property. Social Housing Providers should follow the recognition and measurement criteria set out in paragraphs 8.13 to 8.30 of the SORP.

Where the original intention of use for a property is shared ownership the housing provider should follow the accounting treatment for Shared Ownership set out in paragraphs 8.31 to 8.40.

Subsequent disposal

Where a disposal (either in full or in part) is made of a property with Right to Shared Ownership which has been classified as property, plant and equipment (fixed assets) the disposal will be treated as a disposal of property, plant and equipment in accordance with paragraphs 17.28 to 17.30 of FRS 102.

The Right to Shared Ownership will give social tenants access to the new Shared Ownership model (as outlined in separate New Shared Ownership model accounting guidance). A social landlord will need to consider this guidance to assess whether a provision for the repairs liability is required on sale of first tranche under the Right to Shared Ownership scheme.