



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

## Responses to the Housing SORP public consultation

### A2Dominion

**1. Do you agree with the interpretation of the model leases and the conclusions reached in relation to recognition of a provision?**

A2Dominion agrees with the interpretation and conclusion, however we have a concern that an obligation to incur repair and maintenance costs over a ten year period could be extensive where defects are encountered, or any repairs are required that could prove costly which would not be covered under any warranties.

In addition we would like clarity in what will be included within the obligation to perform 'essential repairs' and detail on how A2Dominion's costs will be covered if a contractor is no longer trading and any warranty or guarantee could not be relied on. An exclusion within the lease where costs could not be recoverable would be beneficial.

**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?**

A2Dominion agrees with the conclusions, but we believe the administration of this could be onerous, see our answer to question 3.

**3. Do you consider that this guidance will create any commercial or operational issues for your organisation?**

Yes. We will need to establish a new administration regime, reflecting the complexity of calculating and applying the new provisions and our resourcing needs will increase which will raise operating costs. Our lenders' requirements include reporting the equity owned by A2Dominion, and this could become onerous if there are significant numbers of customers purchasing small percentages.

We may have to remove some schemes from charge and replace with alternative security should there be a significant uptake in the right to shared ownership from rented due to typical restrictions placed by lenders of shared ownership stock levels within their security portfolios. This will further increase our costs.

We anticipate a need for new systems to support monitoring and reporting and the increased processing activity involved in adjusting the loan security values against the assets will require additional employee resource.

**4. Based on current data for your own organisations do you consider this will have any significant financial or reporting impact?**

Yes. We anticipate an increase in activity which could involve further administration operationally which will raise our resourcing costs. It will also increase administration for our lenders or their trustees which we believe will be reflected in the cost of borrowing and/or an increase in trustee fees. The lender or their trustee could potentially require more frequent reconciliation exercises, which would require additional employee resource.

**5. Do you find the guidance understandable and relevant?**

We would like more detail on this. For example, initial repair period, definition of essential repairs, costs recovered for structure and external parts. We would like exclusions to be introduced where costs are significant and warranties and guarantees cannot be relied on as this could affect the financial viability of the scheme and be detrimental to us.

**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?**

It is difficult to predict at present how the right to shared ownership will affect valuers' application of the discount rate and how this will be reflected in our asset values. It is likely that the valuation levels will be reduced as our income levels will be impacted by the repair and maintenance costs and higher operating costs. Any uncertainty over a new product may affect confidence if there is uneasiness or reluctance in the market potentially due to investors deeming the product less desirable with associated operational cost.

## **Citizen**

**1. Do you agreed with the interpretation of the model leases and the conclusions reached in relation to recognition of a provision?**

Yes.

**2. Do you agreed with the interpretation of new requirement for Right to Shared Ownership and the conclusions reached in relation to the accounting treatment?**

Yes.

**3. Do you consider that this guidance will create any commercial or operational issues for your organisation?**

There will be a need to put in place procedures and processes to ensure that the annual resident repairs allowances can be claimed by customers and paid to them as easily as possible. This will need to include changes to scripting for call handlers in our Customer Service Centre and guidance to be issued on our website.

**4. Based on current data for your own organisations do you consider this will have any significant financial or reporting impact?**

Our pipeline for the New Shared Ownership properties is not large, but the requirement to account for this on individual property level will be onerous. For accounting purposes, to simplify this as much as possible we will need to work in complete financial years, and not precise years based on the actual date of initial tranche sale for each property. The impact will not be material to the financial statements, but this isn't something that seems to have been considered or addressed in the guidance.

## 5. Do you find the guidance understandable and relevant?

Yes, however in the worked example for the Association Provision, the distinction between the 'release of unutilised provision from prior year' and 're-assessment of remaining provision' is not necessary, and the table could be simplified to combine these items.

Once created, the provision will be disclosed on the SoFP as a 'Provision for Liabilities'. However, some providers may interpret this (incorrectly) as a creditor falling due in more than one year, and it would aid consistency if the disclosure requirements could be made more transparent in the guidance.

## 6. Do you agree that the proposed guidance should be incorporated into the next version of the Housing SORP (during the next planned revision)?

Yes, but it should be formally issued as an addendum or separate guidance as soon as possible.

## 7. Do you have any other comments or feedback in relation to the proposed guidance?

This guidance is welcomed, but should have been available much earlier. We have already sold our first new shared ownership properties, and needed sight of the final guidance months ago. Please bear this in mind in future, should similar changes take place.

# JLL

### General comments

By way of introduction, and to give some context to my comments, I think it would be helpful to start with a brief summary of our approach to the valuation of shared ownership property, focussing on the most relevant aspects which are affected by the new shared ownership model; and, separately, those aspects of valuations which may be affected by the Right to Shared Ownership (RTSO).

JLL undertakes the valuation of many thousands of shared ownership homes each year, principally for loan security purposes, although also in the context of transactions between Registered Providers and for accounts purposes. We have done so for many years, and should therefore be well placed, both to provide this explanation and respond on the Working Party's questions.

### Shared Ownership Valuations - Approach

In essence, the valuation of shared ownership as a standing asset (i.e., after the initial equity sale and the grant of the lease) involves the consideration of two distinct elements:

- first, the rental income and how this will change over time; and
- secondly, any future capital receipts from staircasing.

For new build schemes, valued for the purposes of development appraisal or site acquisition, a valuer also has to assess the level of initial equity sales, and therefore both the initial receipts of capital and the amount of retained equity to be valued over the long term. That will be harder to do until there is market evidence to support assumptions about the reaction of buyers to the new minimum 10% model.

Valuations of shared ownership are done using a long term discounted cashflow model, which we almost invariably run over 50 years, with the net income in the final year then capitalised effectively into perpetuity but in accurate terms for the remainder of the lease. Under the old shared ownership model, this will typically be 125 years; but under the new model, with 999

year leases, reality and perpetuity effectively become the same thing. I now take each of the above elements briefly in turn.

### Rental Income

The amount of rent payable under the lease is set when the lease is granted, as a percentage of the value of the retained equity, and then subject to annual indexation, normally at RPI +0.5%. A valuer should identify and value the net rental income, which may vary from the gross amount collected from the leaseholder.

As you will know, for many years the standard shared ownership lease under the old model has provided for the full recovery of the costs of management, including the collection of rent, to be recovered from shared owners through 'service provision'.

However, our experience in practice, including working with associations buying and selling shared ownership properties, is that in reality the costs of management are rarely (if ever) fully recovered, meaning that there will always be some modest level of deduction, whether actual or assumed, from the gross rental income to arrive at a net figure for the purposes of the valuation.

There may also be some level of long term arrears or bad debts in rent payable which providers recognise may be irrecoverable. We appreciate that the level of default under shared ownership leases is very low, although precise figures are not generally available.

This leakage is typically assumed as a small percentage, in the order of 3% or £150 per annum for irrecoverable expenditure.

The net rental income is modelled over the period of the cashflow and discounted to a present value using an appropriate discount rate, determined by the valuer, to reflect the risks attaching to that income stream, judged in the round.

The choice of discount rate will vary according to whether the valuer is running the model in real terms (i.e., to be clear, excluding inflation and capturing only any deviation above or below the general rate of inflation) or in nominal terms, with inflation expressed explicitly in the model. Both approaches are perfectly valid, but a discount rate in a real model will be calculated or stated net of inflation, and will therefore be lower than a nominal discount rate.

### Staircasing Receipts

The second part of the calculation involves an assessment of future staircasing receipts. This in turn involves assumptions about the level of staircasing (ie, the amount of equity purchased), the number of transactions taking place in the portfolio of homes being valued, and the future rate of house price inflation.

It will be apparent that the assumptions around staircasing make the amount of such receipts inherently less certain, therefore a different discount rate is typically applied which will be higher than that applied to the net rental income. The amount of the difference is a matter for the valuer, but in our experience a difference of around 2% would be appropriate and typical in a real model.

It is important to emphasise that the discount rates, and all the other assumptions which go into the model, are simply the means to an end. The resulting aggregate present value (i.e., the sum of the present value of the net rental income and future staircasing receipts) is assessed on various metrics, and in the light of available transactional evidence, of which there is a growing body. We would typically consider the valuation on the following metrics:

- net initial yield;
- internal rate of return (IRR);

- the proportion of the valuation coming from net rental income (which is more certain), compared with that from staircasing receipts (which are far less certain); and
- what the valuation represents as a proportion of the value of the retained equity, if notionally sold on the open market and with vacant possession (in other words, how many pence in the pound a purchaser would be paying for that retained equity, bearing in mind that some or all of it may never be released through staircasing).

Those various metrics should bear comparison with market evidence, where it can be identified; and generally be internally consistent as a set of measures.

It will be apparent from the above description of the approach to shared ownership valuation that it differs from the valuation of either social rented stock or Affordable Rented stock, because of the very different nature of the responsibility for, and therefore deductions to allow for, management, repairs and maintenance; and because of the need to include likely future staircasing receipts.

Rented stock is also valued using a long term discounted cashflow, as you know, but with a much greater number and level of deductions; and the need only for a single discount rate applicable to the net rental income.

The key aspects of the valuation approach affected by the new shared ownership model are therefore:

- for new schemes, the level of initial equity sales, compared with established norms;
- for standing assets, the amount of any additional deduction from the gross rental income to arrive at the net income to be valued;
- the risks assessed as attaching to that income

**1. Do you agree with the interpretation of the model leases and the conclusions reached in relation to recognition of a provision?**

Yes - we agree with the interpretation of the repairing obligations contained in the model leases for both houses and flats. We also agree that an obligation is created by the sale of the first tranche of a shared ownership property under a lease containing those specific repair obligation clauses.

However, all the properties created under the new shared ownership model will, by definition, be new and therefore covered by some form of new build guarantee or warranty, normally for a ten-year period, which would correspond with the relevant period of the obligation under the lease.

Nevertheless, we think it is likely that housing associations will make some provision for their new repairing obligation when calculating the likely net rental income from properties over the first ten years of the new leases; and likely that we will therefore reflect that assumption in our valuations, whether conducted for balance sheet or loan security purposes.

As yet, to the best of our knowledge, there is no transactional evidence involving shared ownership properties under the new model leases. But, as and when such evidence emerges, we would expect the market to be prudent in its assessment of the rental income and to make some assumption to reflect this future obligation.

Although it is not strictly true, and that the value of money does vary over time, we appreciate the pragmatic nature of the statement at the bottom of page 11 of the draft guidance, which states that “the time value of money for both provisions is considered immaterial”. Given that the nature, extent and timing of repairs are entirely unknown, for accounting purposes at least, this seems to be a reasonable statement. In valuations, we are likely to assume either that the full annual amount of £500 would be deducted throughout the ten year period, or some proportion thereof on a straight line basis over the ten year period, if we think the landlord's

contribution will average some lower amount. We appreciate that valuations and accounting treatment are two different things.

**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?**

Yes - from a valuation perspective, we agree that the general principle is that a valuer should value as he or she finds, and that a property built and let for the purposes of either social or Affordable Rent at the date of valuation should be valued as such, on the assumption that it continues to be rented in the same way.

The fact that it may carry a right to conversion to shared ownership at some point in the future, which may or may not be exercised by the current or a future tenant, is impossible to predict with any degree of certainty, particularly in the absence so far of any data as to the level of take-up in various providers' portfolios or in various parts of the country. It cannot therefore reasonably be taken into account in a valuation other than possibly at the portfolio level (on which we comment further below). The proposed accounting treatment appears to us to be sensible and consistent with this principle, although you will appreciate we are of course not professionally qualified to determine whether the accounting treatment is right or wrong.

**3. Do you consider that this guidance will create any commercial or operational issues for your organisation?**

No - not from our perspective as valuers rather than providers, although please see our further comments in relation to question 4, below.

**4. Based on current data for your own organisations do you consider this will have any significant financial or reporting impact?**

We do not consider that the new shared ownership model is likely to have a significant financial impact in terms of our likely, reported valuations. But, that said, it is our view that the new shared ownership model is likely to produce lower capital values than the old model for various reasons, which are summarised as follows, albeit with the caveat that there is no transactional evidence as yet to support these points:

- the reduction in the minimum initial share from 25% to 10% may reduce the financial strength and stability of shared ownership purchasers; and may therefore push the tenure more to the financial margins in terms of the ability of those purchasers to sustain ownership, particularly at a time of rising inflation and greater volatility in interest rates. That is likely to present greater risk, which should be reflected in a higher discount rate and therefore a lower present value;
- the introduction of a different staircasing model, with the ability to purchase instalments as little as 1% and with some additional costs and administration burden imposed on providers as a result, will change the established pattern of staircasing assumptions in shared ownership valuations and may make it less 'lumpy', with more spread over time, and therefore possibly with a reduced present value from those future capital receipts; and
- the reduction in net rental income will also reduce the present value of this element and, arguably, involve higher risk because of the unknown nature of the repair contributions and therefore a higher discount rate and correspondingly lower present value.

If we are correct, and the new shared ownership model does produce a lower value, then homes will be able to support lower borrowing than before (perhaps compounded by funders allowing a lower proportion of it in their total security); as well as having a lower balance sheet value. There could, therefore, be some adverse financial impact from the new model in terms of borrowing capacity.

**5. Do you find the guidance understandable and relevant?**

Yes - in our view it is clear, succinct 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)?**

Yes - we think this would be a helpful step.

**7. Do you have any other comments or feedback in relation to the proposed guidance?**

Yes - in relation to RTSO, we have undertaken some limited modelling of the impact this would have on valuations on the basis of EUV-SH for rented stock.

In essence, tenants exercising their RTSO would introduce two things in place of the existing rental income stream: a capital receipt; and a replacement of the existing rental income stream with a new rental income under the shared ownership lease, depending on the level of equity purchased.

Our modelling suggests that, particularly in areas with higher house prices, and greater disparity between social or affordable rents and house prices, there will be a positive impact on the valuation of a large portfolio, where the valuer could make assumptions at the portfolio level, rather than in relation to specific properties. This would be similar to assumptions which have been made in past years in relation to the exercise of the Right to Buy.

However, in most loan security valuations, we would not expect funders to permit such assumptions to be made when they would create additional value against which debt could theoretically be drawn, but when there is no transactional evidence to support that approach. Moreover, we doubt that auditors would permit such assumptions to be made when they would increase the balance sheet value of rented stock.

We may be wrong about both those assumptions, but we would be surprised if RTSO, even when it becomes established, is allowed to have a material, positive impact on valuations for either purpose.

## **Longhurst Group Ltd**

**1. Do you agree with the interpretation of the model leases and the conclusions reached in relation to recognition of a provision?**

Interpretation of new leases aligns for both houses and flats in England and in agreement with the conclusions related to provisions being recognised.

Per FRS 102 (21.4) initial recognition criteria, the first tranche sale should be seen as a recognising event, whereby an obligation exists from that point for 10 years to support the lessee with essential repair costs.

The calculations regarding probability and estimation of these repair costs should be on an individual judgement basis with many factors differing between social landlords year on year, as suggested. Analysis of a housing provider's data around structural repairs within the first 10 years should be used to assist in the estimation and probability for these costs to occur, along with an assumption on how many claims are likely to be made in terms of qualifying general repairs and at what value these should be included.

**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?**

In agreement with the guidance's accounting treatment with property classification being made in terms of intended use. Properties built under the Right to Shared Ownership (RTSO) model would be developed with a view to rent, as it would be unknown if future lessee's have the financial ability to purchase a share in the property.

A recognising event, such as a first tranche sale would not have taken place when a lease is provided with a RTSO, therefore no provisions would be required in line with FRS 102 (21.4) initial recognition criteria and Section 11.4 of the SORP. This will need to be reconsidered if any future first tranche sales are made for a property. The properties should initially be treated in the current way as rental stock and only differ from this treatment when triggering the RTSO and a first tranche sale takes place.

**3. Do you consider that this guidance will create any commercial or operational issues for your organisation?**

Operationally - work will need to be completed on the provisions carrying value each year, with the number of shared ownership properties likely to change and assessment of the prior year's claims. Qualifying expenditure claims may add additional administrative work from the claim itself and would mean keeping costs at a "per property" level, ensuring that provisions and amounts claimed reconcile.

Commercially - housing providers will need to be aware of the repairs obligation and make decisions with this in mind, this additional expenditure could impact on the ability to invest elsewhere. Where it's financially favourable to use an in-house repair's function or the RP's contractor, this could impact current work programmes for other tenure types.

**4. Based on current data for your own organisations do you consider this will have any significant financial or reporting impact?**

On a "per scheme" basis with the current trends seen in our repair costs, a provision will be needed for both estimated structural and qualifying general repair costs. Given there will be no historic information available around claims initially, it will be necessary to take a prudent approach in providing.

Overall, as the portfolio of properties held under the new model grows as new schemes are finished and the with additional shared owners from the RTSO model, the financial implications will likely become material, with provision estimates becoming more accurate as more years of data is gathered under the new models.

The introduction of the model is expected to have an impact on the work of the financial reporting team, with additional reporting and analysis required monthly and annually. As noted previously, there will also be a significant financial impact that, depending on magnitude, could impact on investment elsewhere.

**5. Do you find the guidance understandable and relevant?**

The guidance was found to be useful, understandable and relevant, particularly where more complex annual unwinding of provisions where scenarios were provided to assist with understanding. The layout is easily followed, and the language used is clear and concise.

**6. Do you agree that the proposed guidance should be incorporated into the next version of the Housing SORP (during the next planned revision)?**

The proposed guidance should be incorporated into the next version of the Housing SORP, clear example scenarios have been given to assist in producing the financial statements.

**7. Do you have any other comments or feedback in relation to the proposed guidance?**



No other comments.

## Savills

**1. Do you agree with the interpretation of the model leases and the conclusions reached in relation to recognition of a provision?**

Broadly speaking yes; There is no change for flats, where as Freeholder the RP would have responsibility for the maintenance of the building envelope and common areas. For houses, there is a 10 year maintenance period, but this will in most cases be within the warranty period for new build homes, so any defect or failure will be picked up by the warranty at very little cost to the RP. As such any recognition will be de minimis.

**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?**

RTSO is something of a headline grabbing initiative which in reality is unlikely to be anything other than an extremely low activity. Thus the approach suggested i.e. "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" is the correct interpretation

**3. Do you consider that this guidance will create any commercial or operational issues for your organisation?**

Not for us as valuers.

**4. Based on current data for your own organisations do you consider this will have any significant financial or reporting impact?**

As valuers, it would not be appropriate for us to comment on the data needs of an RP

**5. Do you find the guidance understandable and relevant?**

Yes. The changes in the new model SO/RTSO are not in reality that significant on a day to day level.

**6. Do you agree that the proposed guidance should be incorporated into the next version of the Housing SORP (during the next planned revision)?**

Yes, so that the SORP covers all relevant matters

**7. Do you have any other comments or feedback in relation to the proposed guidance?**

No

## Flagship Group

**1. Do you agree with the interpretation of the model leases and the conclusions reached in relation to recognition of a provision?**

We agree with the SORP Working Party's interpretation of the model leases and the conclusions reached in relation to the recognition of provisions. We acknowledge that a provision is a judgement and needs to be reviewed and amended over time. However, this lease change may cause disparity in shared ownership financial reporting and make HA

comparability less transparent. Perhaps more consideration could be given to reporting the movement of shared ownership provisions under the new lease.

**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?**

We agree that the intended use for each property should be the basis for initial recognition and that a subsequent disposal should be treated in accordance with the partial disposal of a fixed asset, assuming 'Right to Shared Ownership' is the disposal driver.

**3. Do you consider that this guidance will create any commercial or operational issues for your organisation?**

We do not believe that this guidance will create any commercial or operational issues for our organisation. However, the movement and discounting of provisions is often excluded from interest cover calculations. Once the impact of the repairs provisions in the new lease are fully understood, estimates will become more accurate. However, we perceive that there may, in early years be the potential for prudent assumptions to adversely impact interest cover covenants, with any unwinding in future periods excluded.

**4. Based on current data for your own organisations do you consider this will have any significant financial or reporting impact?**

No significant financial or reporting impact.

**5. Do you find the guidance understandable and relevant?**

Yes, the guidance presents a clear argument for the approach proposed with clear justification for its alignment to FRS 102.

**6. Do you agree that the proposed guidance should be incorporated into the next version of the Housing SORP (during the next planned revision)?**

Yes

**7. Do you have any other comments or feedback in relation to the proposed guidance?**

## **Future Housing Group**

**1. Do you agree with the interpretation of the model leases and the conclusions reached in relation to recognition of a provision?**

- a) I don't see how this differs to normal repairs that we know we need to make on a property. Currently we do not provide because the estimated costs are unknown and this would be the case with these new repair obligations.
- b) By deeming that there is an obligation, this may cause additional work persuading auditors that the amount held is appropriate.

**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?**

Yes I agree that from the outset, these should be classified as GN because it is unknown if the resident will exercise this option.

**3. Do you consider that this guidance will create any commercial or operational issues for your organisation?**

- a) If provisions are required, there would be additional work in developing an appropriate calculation and obtaining auditor sign off.
  - b) However once this has been devised, there should be very little operational issues.
- 4. Based on current data for your own organisations do you consider this will have any significant financial or reporting impact?**
- Nothing significant
- 5. Do you find the guidance understandable and relevant?**
- Yes
- 6. Do you agree that the proposed guidance should be incorporated into the next version of the Housing SORP (during the next planned revision)?**
- Do not believe a provision is required for all HA's
- 7. Do you have any other comments or feedback in relation to the proposed guidance?**

## Harrogate Housing Society

- 1. Do you agreed with the interpretation of the model leases and the conclusions reached in relation to recognition of a provision?**
- Creating the provision from the first tranch profit seems reasonable but this could also create a loss which needs to be considered. I think one of the main areas for debate is the assessment of the probability that a cost will arise. These are new buildings and, if built well, no claims should arise or if they did they would likely be covered by an NHBC (or equivalent) guarantee. That said the probability of a claim should be zero. My interpretation is therefore that no provision should be made. There is also a lack of historic data on these issues to quantify an amount for a provision if the probability is deemed not to be zero. The probability question could also lead to "profits" being moved between years by creating a provision and then releasing it the following year.
- 2. Do you agreed with the interpretation of new requirement for Right to Shared Ownership and the conclusions reached in relation to the accounting treatment?**
- See above
- 3. Do you consider that this guidance will create any commercial or operational issues for your organisation?**
- Administering and keeping track of the provisions, use and their release over ten years at an individual property level will be time consuming even on the small numbers of such properties we will have
- 4. Based on current data for your own organisations do you consider this will have any significant financial or reporting impact?**
- See 3 but no
- 5. Do you find the guidance understandable and relevant?**
- Yes
- 6. Do you agree that the proposed guidance should be incorporated into the next version of the Housing SORP (during the next planned revision)?**

If agreed yes but clarity on what happens until then needs publishing as some of these shared ownership properties are likely to feature in the accounts of associations for year ended 31 March 2023

**7. Do you have any other comments or feedback in relation to the proposed guidance?**

No

## **Hundred Houses Society**

### **General comments**

a) the entity has an obligation at the reporting date as a result of a past event;

We agree that the new lease creates an obligation

b) it is probable (i.e. more likely than not) that the entity will be required to transfer economic benefits in settlement; and

Based on our experience of developing new properties over many years we have had very few instances where we have incurred expenditure on major repairs on internal repairs (qualifying repairs and maintenance during the first 10 years. Where those have occurred they have usually been covered by warranties so would be excluded. The only possible exception we could see to this is if gas servicing is included in the definition of qualifying repairs and maintenance. However these amounts would not be material. To provide only for gas servicing would also seem at odds with accounting for similar costs for rented properties when they fall due.

c) the amount of the obligation can be estimated reliably.”

Following on from above we do not believe with the possible exception of gas servicing costs that the amounts can be estimated reliably.

As we believe that in most instances b and c above will preclude a provision we would prefer to see this recognised in any guidance so a provision would only be expected in exceptional circumstances. This would avoid the need to justify to auditors every year that a provision is not required or is immaterial but still comply with the spirit of the accounting requirements.

We agree with your recommended approach to accounting for Right to Shared Ownership

## **Irwell Valley Homes**

**1. Do you agreed with the interpretation of the model leases and the conclusions reached in relation to recognition of a provision?**

Yes

**2. Do you agreed with the interpretation of new requirement for Right to Shared Ownership and the conclusions reached in relation to the accounting treatment?**

Yes

**3. Do you consider that this guidance will create any commercial or operational issues for your organisation?**

The guidance reflects the issues raised by the changes to SO but no issues stem from the guidance. The NMSO administration requirements for the organisation have been increased – for example, needing to advise on an annual cost, needing to advise on the current repair budget amount etc.

**4. Based on current data for your own organisations do you consider this will have any significant financial or reporting impact?**

Yes – there is a new obligation up to £500 per year for 10 years for eligible repairs as well as a new obligation to repair properties that are not covered by warranties and NHBC. The impact of now having two separate processes and obligation for two different types of shared owner will cause significant reporting issues. This also impacts on the repairs process and the finances. The new RTSO also makes it easier for properties to be taken out of the social housing market at a time when the housing crisis appears to not be easing.

**5. Do you find the guidance understandable and relevant?**

Yes, but we have already been digesting the proposals, and guidances over the last 2 years or more. We wonder if it would be as easy if one was coming to this anew such as new customers and we suggest more easy to read versions, flow diagrams, videos etc...

**6. Do you agree that the proposed guidance should be incorporated into the next version of the Housing SORP (during the next planned revision)?**

Yes

**7. Do you have any other comments or feedback in relation to the proposed guidance?**

The guidance is fine. Customers new to Shared Ownership will be confused by the complexity of the issues as well as the different forms of Shared Ownership. Some key information could be highlighted, such as what is coverable by the insurance/building warranty and that the warranty should be pursued by the customer first. Likewise the issues of the new repair funding obligations for “services” inside the property. Again a flow diagram of the process would be very helpful for customers.

## **Karbon Homes**

**1. Do you agreed with the interpretation of the model leases and the conclusions reached in relation to recognition of a provision?**

Yes, we agree with the interpretation and the treatment/conclusions.

**2. Do you agreed with the interpretation of new requirement for Right to Shared Ownership and the conclusions reached in relation to the accounting treatment?**

Yes, we agree

**3. Do you consider that this guidance will create any commercial or operational issues for your organisation?**

In 10 years, we would expect that there would not be any significant repairs that are not covered by the building warranty (however, we are coming to this view without any data). We would need to try and establish this. Commercial issues, we don't think so although if margins on shared ownership sales became lower, we would need to re-assess this. Operational issues are unlikely due to the volume of sales per annum, this would be manageable, although there is clearly additional workload from monitoring the number of repairs claimed per property per annum.

- 4. Based on current data for your own organisations do you consider this will have any significant financial or reporting impact?**

We don't think this will have a significant financial or reporting impact.

- 5. Do you find the guidance understandable and relevant?**

Yes

- 6. Do you agree that the proposed guidance should be incorporated into the next version of the Housing SORP (during the next planned revision)?**

Yes

- 7. Do you have any other comments or feedback in relation to the proposed guidance?**

No

## **Livewest**

- 1. Do you agreed with the interpretation of the model leases and the conclusions reached in relation to recognition of a provision?**

Yes. We would expect to make a liability for the repairs (initially at £5k per unit until experience is known). However, we are not planning to make an allowance for major repairs as these are covered under warranties. We will consider adding some words under Contingent Liabilities.

- 2. Do you agreed with the interpretation of new requirement for Right to Shared Ownership and the conclusions reached in relation to the accounting treatment?**

Yes.

- 3. Do you consider that this guidance will create any commercial or operational issues for your organisation?**

No. Overall total liability is expected to be c£2m based on total shared ownership programme.

- 4. Based on current data for your own organisations do you consider this will have any significant financial or reporting impact?**

No.

- 5. Do you find the guidance understandable and relevant?**

Yes.

- 6. Do you agree that the proposed guidance should be incorporated into the next version of the Housing SORP (during the next planned revision)?**

Yes.

- 7. Do you have any other comments or feedback in relation to the proposed guidance?**

None.

# Plymouth Community Homes

## General comments

We understand the technical argument for a provision for shared ownership (SO) costs.

However, we can see 2 possible ways to account for repairs for SO homes.

Option 1 : Account for repairs in the year incurred, as now. This is straightforward.

Option 2 : Create a provision for 10 years' future eligible repairs on the sale of every SO home. Recalculate the provision for each property at every year end indefinitely (based on rolling sales of SO homes).

This requires ..

Different provisions for houses and flats

A fluctuating provision pool based on homes leaving and joining

Practical difficulty in projecting 10 years' costs and excluding ineligible costs and those covered by leaseholder insurance or new build guarantee

Over the 10 year period the costs will of course be similar to option 1, by definition.

We feel strongly that Option 1 is the best choice.

Option 2 creates significant administrative cost without any discernible benefit to tenants or users of the financial statements. This is a particular concern with current cost pressures in the sector.

## Settle Homes

- 1. Do you agree with the interpretation of the model leases and the conclusions reached in relation to recognition of a provision?**

As a result of your interpretation we are going to seek our own legal advice

- 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?**

This doesn't vary massively from how we deal with RTB and RTA properties currently

- 3. Do you consider that this guidance will create any commercial or operational issues for your organisation?**

This guidance has brought up provisions that we were not aware of, meaning that we will need to seek our own legal advice

- 4. Based on current data for your own organisations do you consider this will have any significant financial or reporting impact?**

Felt this is more relevant for colleagues in finance area, which we have passed onto them

- 5. Do you find the guidance understandable and relevant?**

We found that this guidance was still ambiguous and there are still a lot of unanswered questions

6. **Do you agree that the proposed guidance should be incorporated into the next version of the Housing SORP (during the next planned revision)?**

I feel this needs to be a lot clearer before it is published

7. **Do you have any other comments or feedback in relation to the proposed guidance?**

None

## **Thirteen Group**

1. **Do you agreed with the interpretation of the model leases and the conclusions reached in relation to recognition of a provision?**

Yes

2. **Do you agreed with the interpretation of new requirement for Right to Shared Ownership and the conclusions reached in relation to the accounting treatment?**

Yes

3. **Do you consider that this guidance will create any commercial or operational issues for your organisation?**

No

4. **Based on current data for your own organisations do you consider this will have any significant financial or reporting impact?**

No, comprehensive analysis has been done over historic costs that fit the eligibility criteria and the resultant provision would be negligible. We exclusively used NHBC registered developers and so warranties, guarantees and insurance would cover almost all potential costs. Thirteen Housing Group would consider redress from the developer if works were of a considerable value and not covered by warranties, guarantees or insurance.

5. **Do you find the guidance understandable and relevant?**

Yes, although the illustrative figures are unrepresentatively high for Thirteen Housing Group.

6. **Do you agree that the proposed guidance should be incorporated into the next version of the Housing SORP (during the next planned revision)?**

Yes

7. **Do you have any other comments or feedback in relation to the proposed guidance?**

Other Association's may find the provision material to their accounts, which would justify the length and detail of the guidance. Given the resultant provision would be negligible for Thirteen, briefer guidance with lower illustrative figures would have been more effective.

## **Orbit**

1. **Do you agreed with the interpretation of the model leases and the conclusions reached in relation to recognition of a provision?**



Yes

- 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?**

Yes

- 3. Do you consider that this guidance will create any commercial or operational issues for your organisation?**

The creation of the provision and monitoring of spend against the provision, the reassessing of the provision each year and c/f of unused £500 per property will all give rise to increased workload. We will have reduced margins on the associated Shared Ownership first tranche sales due to the initial set up of the provision.

- 4. Based on current data for your own organisations do you consider this will have any significant financial or reporting impact?**

We do not believe that this will have a significant financial reporting impact.

- 5. Do you find the guidance understandable and relevant?**

Yes

- 6. Do you agree that the proposed guidance should be incorporated into the next version of the Housing SORP (during the next planned revision)?**

Yes

- 7. Do you have any other comments or feedback in relation to the proposed guidance?**

None