What is your Lease?

The guide to understanding your leases

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Key Terms

Peppercorn/Nominal - Extremely low rate of payment or interest, usually set for legal or contractual reasons.

Market Rate - The prevailing or current rate of payment, price or interest determined by the supply and demand dynamics in the open market.

Low Value Lease - Invovles an asset of low monetary value.

Short Term Lease - Invovles a lease agreement with a duration of less than 12 months.

Lease Liability, Interest expense & Right of Use Asset - Recognised on the balance sheet, along with the **right of use asset** (representing the leasee's right to use the leased asset. The lease liability is amortized over the lease term, with **interest expense** being recognised on the income statement, and the principal portion of the payments reducing the liability.

Present value of lease - current value of all future lease payments that a leasee is required to make under the lease agreement, discounted to reflect the time value of money.

Do you have operating leases?

YES

NO

Are the leases below market rate?

NO

YES

Are they peppercorn/nominal rate?

NO

YES

Leases provided at less than market rate, any value below market rate is treated as income at the start of the lease

Does not meet criteria for a lease, treated as a donation to the charity.

Are they more than 12 months or low value?

Excluding land

YES

NO

Can continue to be expensed to P&L

These will now have to have a balance sheet component as follows:

1. Asset - a right of use asset will be included and depreciated over the lease term
2. Liability - a lease liability will be recognised, reflecting the obligation to make lease payments over the lease term. This will be the present value of lease repayments and will unwind as an interest expense
3. SOFA - Depreciation on each asset will be unwound along with an interest expense over the lease term

Do you have finance leases?

Is the same as currently

YES

NO

No leases, therefore no action necessary

Are leases below market rate?

YES

NO

Are they peppercorn/nominal rate?

YES

NO

Lease provided at less than market rate, any value below market rate is treated as income at the start of the lease.

Are they more than 12 months or above £5000?

YES

NO

Can continue to be expensed to P&L

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2026 SORP Trustee Report Updates - Tier 1

Less than £500k income

Significant Changes

Financial Overview:

- The report must provide a summary of the charities plans for the future
- All tiers must also identify and explain only material amounts that have been designated or otherwise commited as at the end of reporting period AND must indicate the likely timing of the expenditure - to avoid window dressing

Sustainability :

- Tier 1 charities must demonstrate that trustees have considered the charities long-term impact and how activities deliver public benefit.
- All tiers may choose to include the charities approach to managing environments, governance and social matters. Trustees are encouraged to consider the needs of the stakeholders when completing this section

Minor Changes

Achievements and Performance:

- Must have a summary of the main achievements in the year. Clarifying impact to what's the differences to the circumstances of its beneficiaries and has the charity provided wider benefits as a whole
- If the reserves included in the trustees report is not in line with the charities reserves policy, all tiers must explain what steps the charity is taking to bring the amount of reserves it holds into line with the level of reserves. The SORP now provides a definition of 'free reserves' so calculations are the same across Charities.

Objectives and activities:

- The report on O&A should be consistent with the analysis of expenditure within the notes to the accounts
- Volunteers - Must disclose scale of the volunteering and nature of activities

Exemptions from disclosure:

Tier 1 charities are not required to:

- Provide a detailed description of principal risks and uncertainties
- Give an extensive explanaintion of mitigation strategies
- Provide a full internal control framework description
- The total remuneration paid to key management personnel can now be disclosed as a single aggregate figure

Trivial Changes

Structure, governance and management:

Ensure you are stating:

- The Legal Structure
- The Governing Document
- The Date of Establishment

Reference and admin details:

- For Tier 1 charities with income below £500,000, many are eligible for independent examination instead of full audit you must include the independent examiner's name and firm, if used

Funds held as holding trustee on behalf of another:

The charity should clearly distinguish the report between:

- Funds belonging to the charity
- Funds held on behalf of another charity or organization

2026 SORP Trustee Report Updates – Tier 2

Significant Changes

Financial Overview:

- All tiers must also identify and explain any material amounts that have been designated or otherwise committed as at the end of reporting period AND must indicate the likely timing of the expenditure – to avoid window dressing.
- The report must provide a summary of the charity's plans for the future and then should explain the Trustees perspective of the future direction of the charity and any lessons learned.

Sustainability :

- All tiers may choose to include the charity's approach to managing environments, governance and social matters. Trustees are encouraged to consider the needs of the stakeholders when completing this section.

Tier 2 charities may (not must) include environmental impact disclosures if relevant to their activities:

- Energy efficiency, waste reduction, or green procurement
- Sustainable service delivery practices

Minor Changes

Achievements and Performance:

- Must talk about the achievements and performance of the charity and it's subsidiaries.
- If the reserves included in the Trustees report is not in line with the charity's reserves policy, all tiers must explain, what steps the charity is taking to bring the amount of reserves it holds into line with the level of reserves

Objectives and activities:

- Must provide the user with a more detailed understanding of their short term and longer term aims and objectives and how those in short term relate to those in the longer term.
- Volunteers - More specifically, should require number of volunteers and activities supported and can disclose volunteered hours or FTE.

Exemptions from disclosure:

- If trustees are paid, disclosure is still required, but Tier 2 charities do not have to include wider pay policy discussion unless relevant.
- Unlike Tier 3, Tier 2 charities are not required to provide a detailed narrative on senior pay benchmarking —a simple disclosure of key management personnel remuneration is sufficient.
- Tier 2 charities may provide aggregate numbers of staff rather than detailed headcounts by function.

Trivial Changes

Structure, governance and management:

- Ensure you are stating:
- The legal Structure
- The Governing Document
- The Date of Establishment
- Names of all trustees.
- Risk Managment Statement must be disclose

Reference and admin details:

- Full Legal Name of Charity
- Registration Number
- Registered Office
- Disclose Professional Advisors
- Legal Form

Funds held as holding trustee on behalf of other:

Trustees' Report disclosure should include:

- The fact that the charity is acting as custodian/holding trustee
- The name of the beneficiary charity or fund
- The purpose of the funds
- The amount held at the year end

Tier 2 charities must clearly distinguish between:

- Funds belonging to the charity itself
- Funds held on behalf of another charity or organization

SORP 2026: Income Recognition

The message for trustees and CEO's:

Classify income
Exchange or non-exchange transaction?

Identify obligations
For contract income, identify what the charity has promised to deliver

Recognised when delivered
Income may be deffered until charity satisfies those obligations

Classifying Income: Exchange vs Non-exchange income

This is the first and most important judgement.

Exchange Income	Non-exchange Income
The charity gives goods or services of approximately equal value in return.	**The charity receives value without giving approximately equal back.**
Examples: training fees, contract income, trading sales, care fees, some memberships, service level agreements. Key question: what have we promised to deliver to the payer?	Examples: donations, most grants, legacies, fundraising appeals, gifted goods or services. Key question: are there conditions (entitlement, probability of receipt, measurability) that prevent immediate recognition?

The 5 stages

1. Identify the contract	Do we have an agreement with a funder/customer that creates enforceable rights and obligations?
2. Identify performance obligations	What specific goods, services or outputs must we deliver? Are they separate promises?
3. Determine the transaction price	How much income do we expect to be entitled to for delivering those promises?
4. Allocate the price	If the arrangement includes several promises, split the income between them on a reasonable basis.
5. Recognise income	Recognise income when, or as, the relevant promise is delivered — not simply when cash is received.

Old approach vs new approach

Old SORP approach	SORP 2026 approach
One broad income recognition framework Recognise when entitlement exists Receipt is probable Amount can be measured reliably	First classify the income stream Exchange income follows the 5-stage model Non-exchange income follows gift/grant principles Greater focus on conditions and performance

Example: Why contracts may need to be 'unbundled'

A sponsorship or membership package may include several promises.

One sponsorship package

- **Logo on event materials**
- **Exhibition stand**
- **Speaking opportunity**
- **Tickets / attendance**

If the payer is receiving distinct benefits, the charity may need to allocate the price between those benefits and recognise income when each is delivered.

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