

Housing Revenue Account Tenancies and Leasing Standards

Summary Presentation from
the CIPFA LASAAC Local Authority Accounting Code Board

Housing Revenue Account Tenancies and Leasing Standards



Reason for consultation: challenges raised by FRAB on current approach to adaptation



Consultation paper considers leasing standards (but focus is on IFRS 16 *Leases*)



Asks three questions – see subsequent slides



Structure: Consultation Paper, Technical Appendix and Exposure Draft (ED1)



Analysis based on secure tenancies – in England 94% of tenancies



Tests based on countrywide information where that information is available.

Q1a): Do housing tenancies meet the definition of a lease – IAS 17 Leases

- IAS 17 *Leases* definition:
*‘agreement whereby a lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an **agreed** period of time’*
- Secure tenancies ‘lifetime +’ but not for an ‘agreed period of time’ so not leases.
- **No need to change 2020/21 or 2021/22 Codes**

Q1b): Do housing tenancies meet the definition of a lease – IFRS 16 *Leases*?

📄 There is a contract

✓ Identified asset

🏠 Tenant consumes **substantially all economic benefits** throughout period of use and **directs the use** of the asset

💰 Authority benefits from the **service potential** in the asset, but this is used at the point the tenancy is granted

🔒 Conclusion: **secure tenancies are leases under IFRS 16**

💡 The conclusion is extended to other tenancies

Q2: Is a secure housing tenancy agreement an operating lease or finance lease?

- **Overall assessment**
- The authority will **retain the rewards of ownership** in the form of the **rights to the appreciation in sale value** and the receipt of **rental income** from the tenant
- Assumption therefore that this is an operating lease
- Lease tests – provided on a ‘reasonably certain’ and a ‘probable’ based to be certain of outcome
- Further analysis undertaken – see following slides

Secure housing tenancy - operating or finance lease?

Primary 'indicators'



The housing tenancy does not pass ownership to the tenant



No option to purchase – Right-to-buy not 'reasonably certain'



The lease term is not for the major part of the economic life of the council dwelling (probably)



The present value of the lease rentals is not substantially all of the fair value of the property



The asset is not of a specialised nature



Conclusion **an operating lease**

Operating or finance lease?

‘Secondary indicators’

Indicator	Response
If the lessee can cancel the lease, the lessor’s losses associated with the cancellation are borne by the lessee	If the tenant cancels the tenancy there are no losses borne by the tenant
Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee	No these accrue to the local authority
The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent	There are no secondary periods which could involve rent reductions
Conclusion: Secure tenancies are operating leases	

Q2: Conclusion - Operating Lease or Finance Lease?



Conclusion – housing secure tenancies are operating leases (also extended to other leases)



Interpretation in Exposure Draft – housing tenancies are operating leases

Q3: Depending on the classification – what disclosures might be required?

Operating Lease Disclosures for Lessors

Lease income

- housing rents already on the face of the HRA

How the lessor manages the risk associated with any rights it retains in underlying assets –

- mostly about residual value risks – not useful
- risks with Right-to-buy? Not relevant or significant

Maturity analysis

- determining the future lease cash flows for the individual tenancies in place at the reporting date is unlikely to provide decision-useful information – particularly given the costs required to produce it

Secure housing tenancies – operating lease disclosures



The consultation proposes that as the information is either already provided or not relevant then that no further information is needed to be reported for housing tenancies



The consultation seeks stakeholders' views on this