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Technical appendix – Accounting for housing tenancies under IFRS 16 *Leases*

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Technical appendix – Accounting for housing tenancies under IFRS 16 *Leases*

Section A: Introduction – Technical accounting issues to be considered in relation to housing tenancies under IFRS 16 and IAS 17

1. This technical appendix will consider the key issues relating to housing tenancies and leasing standards focusing on the new standard IFRS 16 *Leases*. The technical assessment will consider only secure tenancies entered into by housing tenants across Great Britain. It is considered that similar approaches and considerations will then be able to be applied to other tenancy agreements. This is particularly the case because secure tenancies are understood to be by far the largest type of tenancy held with local housing authorities (see paragraph 26 of the main invitation to comment document).

2. This technical appendix will consider the following three questions:

- Section B: Is the secure tenancy for tenants within local housing authorities a lease for accounting purposes?
- Section C: If the secure tenancy meets the definition of a lease, is it a finance or an operating lease?
- Section D: Dependent on the classification decided on in section C, what reporting requirements will be needed by the users of local authority financial information relating to housing tenancies and the related assets?

3. This technical appendix will of necessity consider the secure tenancy from a general basis making common assumptions. This is the case as it is trying to make an overall assessment. Transactions will differ on an individual basis for each local authority for accounting purposes and certainly for individual tenancies. The descriptions and analysis have been undertaken to assess the relevant accounting treatment. They offer no commentary on the security of these tenancies for any other purpose.

4. In order to undertake the assessments, it has been necessary to use average or estimated information as the relevant information is not collected or available. To assist with this a sample of 40 local authorities in England was used to ascertain the useful life of council dwellings and to gain an estimate of fair or market value.

5. The adoption of IFRS 16 has been delayed to 2022/23 financial year. However, Appendix F of the 2020/21 Code of Practice includes CIPFA/LASAAC's agreed provisions to date. References to the Code below are therefore to the agreed provisions in Appendix F of the 2020/21 Code.

6. Annex A to this technical appendix considers whether the secure housing tenancies meet the definition of a lease under IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement Contains a Lease*. This assessment has been made to ensure that the accounting position is correct for current editions of the Code and that the starting position for the transition to IFRS 16 is clear.

Section B: Is the secure tenancy for tenants within local housing authorities a lease for accounting purposes?

7. Secure tenancies are not legally leases. However, IFRS 16 has a clear process for identifying whether an arrangement is or contains a lease for accounting purposes irrespective of its legal status. A lease is defined in IFRS 16 as:

"A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration."

8. Local authorities use assets not just for the economic benefits that may be obtained from their use but also for their ability to support services so paragraph 4.2.2.36 of Appendix F adds the concept of 'service potential' to the IFRS 16 decision making process for the identification of a lease. Service potential is described in the IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (IPSASB 2014) as the capacity to provide services that contribute to achieving the entity's objectives.

9. Therefore to assess whether a contract conveys the right to control the use of an identified asset for a period of time, a local authority is required to assess whether, throughout the period of use, the customer has both of the following:

- the right to obtain substantially all of the economic benefits and/or service potential from use of the identified asset, and
- the right to direct the use of the identified asset.

10. IFRS 16 sets out steps to assess whether a contract is or contains a lease (summarised in the flowchart at paragraph B31). The relevant questions from this flowchart as they would apply to secure housing tenancies are considered in the table below. The flowchart is included in Annex B to the technical appendix.

Table 1: Questions to consider for the IFRS 16 identification of a lease

Questions	Considerations/response
Is there a contract? (See paragraph B13 of IFRS 16)	**Yes**, the secure tenancy is agreed and a contract for the tenancy exists between the authority as landlord and the tenant as customer.
Is there an identified asset? (See paragraph B13 of IFRS 16)	**Yes**, the agreement specifies the property (the council dwelling) in which the tenant will live and therefore identifies the asset in question.
Will the customer have the right (throughout the period of use) to obtain substantially all of the economic benefits and/or service potential from use of the asset? (See paragraph B21 to B23 of IFRS 16)	**There is a transfer of economic benefits to the customer.** The customer (tenant) uses the property and therefore consumes the value (economic benefits) inherent in the building during the contract period. There is not complete freedom of use: • Tenants are not free from eviction as certain conditions exist such as paying rent and service costs on time. • Social behaviour is considered and must be maintained for the tenant to continue to live in the property. (These conditions are more likely to be protective rights for the authority to maintain the value of the property, rather than restrictions over the customer's consumption of its value.) Tenancies are unusual when being considered as leasing arrangements in that the tenant's objective is solely to occupy the property, not to make returns from the use of property, unlike a business that would use an asset to make returns from the production or supply of goods and services. The authority is the only party receiving cash flows. Section 93 of the Housing Act 1985 allows tenants some functions of subletting ie tenants are able to take lodgers but Section 93 2) does not allow tenants to sublet the whole of the dwelling house (where this is the case this is no longer a secure tenancy. (This provides an indication that the tenant during the period of can make gains and therefore obtains some economic benefits in the asset.) However economic benefits are being consumed during the tenancy as is evidenced by depreciation of the property. The gains from consumption fall wholly to the tenant. During the period of use the authority is the only user of the service potential in the asset (to house local authority housing tenants). But this service potential is consumed at the point the tenancy is awarded. **During the period of use the tenant has exclusive use of the asset and therefore will consume the value of the asset in that period.**

Questions	Considerations/response
Does the customer have the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions? (see paragraph B24 of IFRS 16)	The legal framework allows the customer (the tenant) to operate the asset as a tenant and within the scope of the tenancy, without the local authority having rights to change its use. The tenant also generally has the right to direct the use of the underlying property because the tenant decides how and for what purpose the property will be used. There are limitations on what the tenant can do in terms of social behaviour or adaptations to the property, but these are more likely to be protective rights for the authority to maintain the value of the property. So although there are restrictions and limitations on the use of the property the tenant largely has the right allowing for fair use to use the property and direct its use.
Did the customer design the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use? Consider paragraph B24(b)(ii) of IFRS 16.	N/A, as previous question answered positively.

Conclusion

The table above confirms that it is likely that during the period of the lease:

- the tenant has the right to obtain substantially all of the economic benefits and service potential from use of the council dwelling
- the tenant has the right to direct the use of the council dwelling, and
- the authority benefits from the service potential in the asset but this is used at the point the tenancy is granted.

Therefore a secure tenancy is likely to be a lease.

Period of time

11. The definition of a lease requires the 'right of use' to be conveyed for a period of time. It appears that a tenancy has no specified end point, so a question arises as to whether there is no defined period of time, taking the tenancy outside the scope of IFRS 16. Alternatively, the period of time could be argued to be the four-week notice period, which is constantly renewed.

Other commentary

12. Paragraph 10.3 of the *Housing SORP: 2018 Update Statement of Recommended Practice for Registered Social Housing Providers* (Housing SORP) considers standard rental agreements for tenanted social housing properties to be operating leases, based on the requirements of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. Annex C to this technical appendix includes an extract from the Housing SORP.

General conclusion

13. Most indicators appear to lead to the conclusion that secure housing tenancies in substance are leases.

Section C: If the secure housing tenancy meets the definition of a lease, is it a finance or an operating lease?

14. Paragraph 4.2.2.69 of Appendix F of the 2020/21 Code and IFRS 16 paragraph 62 establish that:

> "A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset."

15. Generally, as established in Table 1, economic benefits relate to changes in the value of the property or the ability to generate income. The risks and rewards assessment will focus on those relating to the council dwelling or any residential property ie in the value of the building and the ability to generate income. However, again as local authority assets are held not just for economic benefits, the service potential an authority can derive from the property being used must also be considered.

16. The following points consider whether the risks and rewards of owning the council tenancy transfer to the tenant as a regard to the secure tenancy agreement:

- In providing social housing to the tenant the local authority is maximising the service potential in the asset ie it is providing the function it is intended to provide. Housing tenants benefit from the consumption of the asset.
- Local authorities benefit from any increases in the market value of the asset and in the receipt of housing rents from the tenant.
- The most substantial risks to owning the council dwelling lie in the risks relating to the value of the asset. Although housing tenants consume economic benefits during the period of use, the risks relating to any falls in value of the asset lie not with the tenant but with the local authority. The local authority is responsible for the maintenance and upkeep of the fabric of the building and the most substantial fixtures and fittings to maintain the value of the asset.
- Local authorities also lose some service potential while properties are held vacant or are damaged and are not habitable.

17. A more minor reward is that tenants may receive income if they have lodgers.

General conclusion

18. The risks and rewards of owning the property lie substantially with the local authority.

Examples of circumstances that individually or in combination would lead to a lease being classified as a finance lease.

19. In addition to the assessment of whether a lease transfers substantially all the risks and rewards incidental to ownership of an underlying asset, the Code and IFRS 16 (paragraphs 4.2.2.71 and 63 respectively) include the following examples of situations where either individually or in combination a lease would be classified as a finance lease:

Table 2: Examples of situations where a lease would be classified as a finance lease for a local authority secure tenancy

A.	*The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.*
A.1	• This does not occur in a secure tenancy. The council dwelling remains under the ownership of the local authority. **Conclusion: This example situation provides evidence of an operating lease.**
B.	*The lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised.*
B.1	• Except for the circumstances afforded by the right to buy provisions discussed in the next bullet local authority housing tenants do not have an option to purchase the council dwelling. • Right to buy in England is provided under Section 118 of the Housing Act 1985. It does not arise directly from the contract (and is therefore not a part of the definition of a lease, which refers to a contract being in place) between the authority and tenant but as a result of the incidental impact of statute and needs to be considered outside IFRS 16. Otherwise if the contractual arrangements caused by right to buy legislative provisions are considered: – Right to buy properties are discounted at less than their market value based on periods of tenancy though this discount has a ceiling. The discounted market value will be less than the fair value. – Tenants must have been in public housing for at least three years (in some cases two years) before they are allowed to participate in the right to buy scheme so for new tenants at the inception of the lease the right to buy option is not applicable. Although there may be arguments that a right to buy option might arise under a secure tenancy an authority would need to be 'reasonably certain' that the tenant would at the inception of the lease take-up this option. – As at the inception of the lease the tenant has chosen to rent it is arguable that economically at that juncture the tenant cannot afford to choose a different option for housing. – Any other assessments would require the council to be reasonably certain that each tenant expects to exercise the option. At the inception date it is not possible to make this assessment, but economic factors would suggest at the inception of the lease the tenant is not 'reasonably certain' to take up this option. – A local authority could assess how many tenants take up the right to buy option but this would only provide some indication of the probability of a tenant taking up a right to buy option and would not provide evidence that each tenant is on an individual basis 'reasonably certain' to take up the option. • It should also be noted that the right to buy provisions depend on the continuation of government policy, which is outside the control of either party to the lease. **Conclusion: This example situation provides evidence of an operating lease.**

C.	*The lease term is for the major part of the economic life of the underlying asset even if title is not transferred.*

C.1

- The lease term is defined in the Code and IFRS 16 as:

  "The non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

  a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, and

  b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option."

- Paragraph 4.2.2.42 b) of the Code (and 18 (b) of IFRS 16) establishes that the lease term is the point up to which it remains 'reasonably certain' that the option will not be exercised. The agreement allows tenants to live in the property for the rest of their lives provided that they do not break the conditions of the tenancy agreement. The tenancy may end the agreement at any point by giving the authority 28 days' notice. So for housing tenancies we would interpret this as the period during which it is not reasonably conceivable that the tenant as lessee could end their agreement.

- The question is therefore whether the lease terms are set as a sufficiently long enough period that will allow the transfer of substantially all the risks and rewards incidental to ownership of the underlying asset (paragraph 4.2.2.69 of the Code, paragraph 62 of IFRS 16).

- An assessment would be made that the lease term would need to be at least x number of years to meet the definition of a finance lease ie the major part of the economic life of the asset (for this assessment we will assume a minimum 25 years) or for long enough that the present value of the lease payments represents the fair value of the underlying asset (at this juncture assume this would be the same period though it may be substantially longer).

- To ascertain the length of the lease term the lessor would need to consider all relevant facts and circumstances that create an economic incentive for the tenant (the lessee) not to exercise the option before those 25 years. Therefore the following needs to be considered in accordance with paragraph B37 of IFRS 16.

  – **Contractual terms and conditions for the optional periods compared with market rates** – this factor might be more relevant as social housing rents are usually below market rates, but it would be difficult to argue that such low rents would mean that tenants would be reasonably certain not to end the tenancy solely because of this. It is arguable, for example, that a local authority tenant could move to a rental property from a social housing landlord.

  – **Significant leasehold improvements undertaken (or expected to be undertaken) over the term of the contract that are expected to have significant economic benefit for the lessee** – this is not likely to be a significant factor. Local authorities will maintain the fabric of the building, but tenants are required to maintain the condition of the property. It is understood that there are restrictions on the tenant's ability to substantially adapt or modify the property and therefore limitations on their ability to make significant leasehold improvements.

  – **The importance of that underlying asset to the lessee's operations** – this factor does not apply.

  – **Conditionality associated with exercising the option** – as there are no conditions that must exist or be met for a tenant to end their agreement, this condition is not relevant and this factor does not apply.

C.1 – Paragraph B40 of IFRS 16 sets out that:

"a lessee's past practice regarding the period over which it has typically used particular types of assets (whether leased or owned), and its economic reasons for doing so, may provide information that is helpful in assessing whether the lessee is reasonably certain to exercise, or not to exercise, an option."

As local authorities will only have minimal information about previous tenancies with other landlords (ie information collected through pre-tenancy reference checks) an authority might be able to consider that a tenant has already rented the property for five years but will not be able to argue with any reasonable certainty that an individual tenant will be locked into the tenancy for the following 20 years or even 10. Historical information on other tenants would not be relevant (even if there is evidence that some tenants will stay in the tenancies for long periods).

- The sub-group considered that it would not only consider the 'reasonably certain' test but would also consider whether it was probably the case that the lease term is a major part of the economic life of the asset.
- Investigations with stakeholders have indicated that generally local authorities do not keep information on the length of secure tenancies. Government statistical information[1] indicates that for 2018/19 the total number of lets as a percentage of local authority stock at year end (stock turnover) is 6.7%. So a crude assessment of tenancies across England based on the stock turnover of 6.7% would indicate that the average length of all tenancies is 15 years. This also agrees with the average length of a secure tenancy based on CIPFA LASAAC's feedback from an earlier investigation where one authority was able to establish the length of secure tenancies at 15 years. An alternative source (the English Housing Survey[2]) based on a sample of 1,432 renting households in England in 2018/19 shows that 24% of households had lived in their home for 20 years or more, indicating that roughly 76% had lived in their homes for less than 20 years. Although economic life information is not available, a further sample of 40 local housing authorities in England (note that this sample is statistically significant) showed a varying range of useful lives. Local authorities normally presented a lower and upper range of useful lives including those used for componentisation so the average upper limit for useful lives was 53 years with the lower rate being 23 years. The lower rate is likely to include housing components such as kitchens etc. Based on the average length of a tenancy of 15 years and the useful lives from the sample (and not economic life) it would appear that the length of the lease is not for the 'major part' of the economic life of the council dwelling.

Conclusion: This example situation provides evidence of an operating lease.

1 Local Authority Housing Statistics, or it predecessors, Housing Strategy Statistical Appendix (HSSA) and the Housing Investment Programme (HIP) returns.

2 Initial findings from the English Housing Survey 2018 to 2019.

D.	*At the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset.*	

D.1 • As the rent for social housing is below market rates it is unlikely at the inception date that the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset (see also the calculations below).

Illustration: Present value of lease payments test against the fair value of the underlying assets

Average local authority social rent in England was £85.97 per week[3] *in 2018/19. Assume an average lease term of 15 years (based on total local authority stock turnover information of 6.7% – see C.1) and that there is no CPI or other increase in rent; based on a PWLB fixed rate annuity of 2.12% (the 15 year rate) the* **present value of the lease payments is £57.1k.**

Local authorities in England do not hold information on market rates of their council dwellings in the financial statements. However, the closest estimate of market or fair value would be the undiscounted current value in their financial statements ie removing the discount factor set by government. Using the same sample of 40 authorities as in C.1 the average undiscounted value of the council dwellings is **£179.1k**. *Therefore at the inception date the present value of the lease payments does not represent substantially all of the fair value of the underlying asset.*

- There is no definition of "substantially all". Practitioners might set a relatively high indicative percentage to assess a lease as a finance lease. However, as this (albeit crude) illustration above shows, the present value of the lease payments is below 50% of the estimated market value and is in fact just under a third of the undiscounted value of the council dwellings. The illustration above would provide evidence of an operating lease.

Conclusion: This example situation provides evidence of an operating lease.

General conclusion

20. The example situations specified by the Code and IFRS 16 do not provide evidence that housing tenancies are finance leases and therefore the **conclusion is that secure tenancies are operating leases.**

21. Paragraph 4.2.2.72 of the Code and paragraph 64 of IFRS 16 have a further set of indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease.

3 Local Government Housing Statistics Table 702 Local authority average weekly (social and affordable) rents, by district, England 1998-99 to 2018-19

Table 3: Indicators of situations that could lead to a lease being classified as a finance lease

Indicators of situations that could lead to a lease being classified as a finance lease	Local authority housing tenancy agreement
If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee.	• If a tenant cancels the tenancy there are no losses borne by the tenant. • The only costs that might be borne by the tenant would be those that might be required to reinstate the condition of the property. These costs are not related to the cancellation.
Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee.	• Any gains or losses from changes in the fair value of the council dwelling do not accrue to the tenant. Changes in the fair value of the property have no direct impact on the rent for social housing.
The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.	• If the assumption is made that anything beyond the first 28-day period of a tenancy is a secondary period, the secondary period rent will not be substantially lower than the preceding period. • There are no secondary periods that could involve rent reductions.

22. None of the secondary indicators therefore give rise to the consideration that council dwelling contractual arrangements are finance leases.

General conclusion

23. On examination of the secondary indicators secure housing tenancy agreements are in substance operating leases.

Overall conclusion

24. When taking into consideration all three assessments, secure housing tenancies can be considered in substance to be operating leases.

Section D: Dependent on the classification decided on in section C what disclosure requirements will be needed by the users of local authority financial information relating to housing tenancies and the related assets?

25. Annex D to this technical appendix includes an extract of the reporting requirements for operating leases under the Code's adoption of IFRS 16.

26. The main disclosures include:

- lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate
- the nature of a lessor's leasing activities and how the lessor manages the risk associated with any rights it retains in underlying assets; a lessor is required to disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk, and
- a maturity analysis of lease payments showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

Lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate

27. The lease income disclosure is required by paragraph 4.2.4.13 b) of the provisions included in Appendix F of the Code. This information is covered by the presentation of the housing income streams on the face of the HRA income and expenditure statement, which gives this information substantial profile in local authority accounts. No further information is required as this would lead to duplication.

Information on the nature of the authority's leasing activities and the risks it retains in the underlying assets

28. Paragraph 4.2.4.15 requires that local authorities report on the nature of their leasing activities and provide information that helps users assess how it manages the risk associated with any rights it retains in the underlying assets. It sets out that the lessor is required to disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. The nature of local authorities' leasing activities is provided in the narrative description on the Housing Revenue Account income and expenditure statement. In England local authorities are required by the Housing Revenue Account (Accounting Practices) Directions 2016 to provide detailed disclosures on Housing Revenue Account housing stock. These disclosures are not directly related to the risks associated with the rights it retains in the council dwellings (eg freehold ownership), but they allow for monitoring movements in the housing stock and consideration of the state of these assets.

29. The examples in IFRS 16 and the Code suggest that this disclosure may include a commentary on residual value guarantees (the other examples of means by which a lessor may reduce the risks associated with the rights it retains are not considered relevant to council dwellings stock). The guarantees mitigate against the risk that the underlying asset may sell for an amount lower than anticipated. In order to maximise their service potential, it will be the objective of local authorities to keep letting council dwellings to new tenants. As there is no intention to realise the residual values of these assets, this disclosure is not deemed to be relevant to the management of local authority housing stock.

30. It might be argued that that there are risks to the rights that a local authority retains in the underlying asset from the right to buy scheme. However, evidence from initial investigations indicate that this is an increasingly low percentage of a local authority's housing stock and this is therefore not likely to be a material risk. This is supported by information shown by the 'heat map', which demonstrates across England that there is a relatively low incidence of right to buy sales that are over 1% per 1,000 dwellings in a local authority area. See heat map for English authorities reproduced in Annex E.

31. It is arguable that the disclosures provided when this requirement is applied to housing tenancies are not useful to users of the financial statements. Providing this information has the potential to clutter the notes to the HRA account. **Therefore, it is recommended that it is not included in the specifications for disclosures for local authority council dwellings tenancies.**

Maturity analysis of lease payments

32. Paragraph 4.2.4.20 requires that local authorities present the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

33. As the secure housing tenancy agreement cannot ensure lease payments for anything longer than the following four week period, and possibly for some tenancies for less than this as they may have been ended or subject to default, it is likely to be difficult for accounts preparers to provide any maturity analysis of guaranteed payments and certainly this information would not be available for greater than one year.

34. In the context of housing tenancies, overall the housing stock is expected to be well utilised (based on demand and subject to stock maintenance programmes). It is likely that overall revenue will remain similar from year to year, but the length of individual tenancies will differ. Determining the future lease cash flows for the individual tenancies in place at the reporting date is unlikely to provide decision-useful information, as generally housing tenancies are re-let quickly and therefore this does not justify the cost of producing it (given the current information included in the notes to the HRA account – particularly information about rent arrears, together with the information on rental income).

35. In FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland*, on which the provisions of the Housing SORP are based, paragraph 20.30 includes the requirements for a similar disclosure though it does this for non-cancellable leases and also includes a requirement to disclose contingent rents. CIPFA LASAAC has considered a sample of ten registered social landlords. Only one disclosed information on a maturity analysis and one had taken the decision that its tenancy agreements are not leases though this was reporting under IFRS 16.

36. Lease information might not have been included for RSLs because FRS 102 refers to 'non-cancellable' operating leases. This distinction is not made in IFRS 16 but is included in IAS 17 Leases as adopted by the 2020/21 Code.

37. It is recommended that the disclosure of the maturity analysis of lease payments is not included as a disclosure requirement for local authorities to avoid raising the expectation that the disclosure would need to be provided and avoid adding clutter to local authority financial statements.

Annexes

Annex A: Consideration of whether housing tenancies are leases under IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*

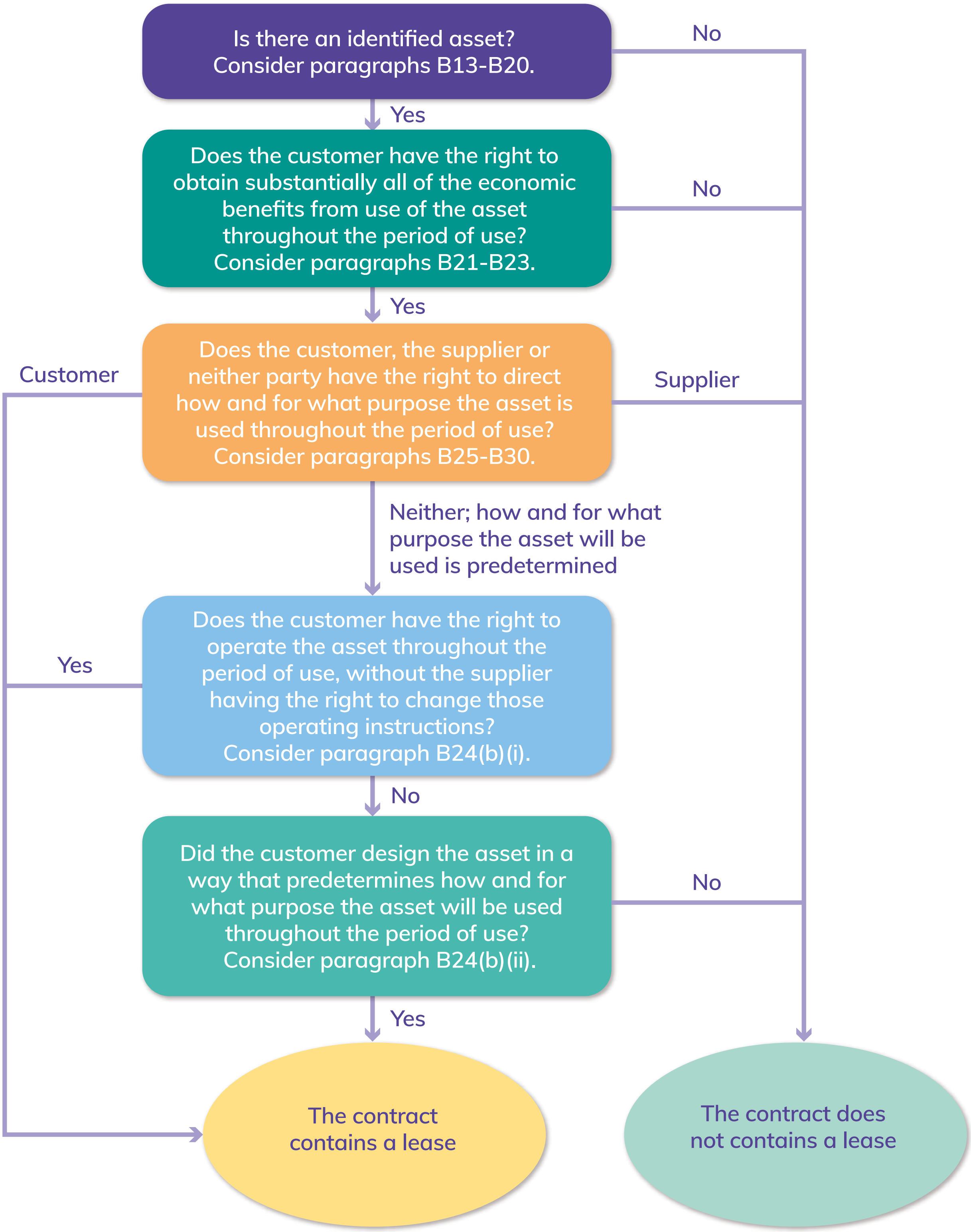
A.1 The Code and IAS 17 *Leases* define a lease as:

"an 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."

A.2 As discussed in the technical appendix the tenancy agreement for secure tenancies is an agreement and the local authority receives payments from the tenant. However, other than for fixed term tenancies it is less clear whether the tenancy is for an 'agreed period of time' ie a term with a fixed start date and end date agreed between the two parties. With secured tenancies, the agreements allow tenants to live in the property for the rest of their lives providing that they do not break the conditions of the tenancy agreement and have rights to pass the tenancy agreement on to close family members. It is arguable therefore that secure tenancies do not meet the definition of a lease. Some flexible tenancies are offered for a fixed term, but most council tenancies are secure tenancies.

A.3 IFRIC 4 *Determining Whether an Arrangement Contains a Lease* provides guidance on how to determine whether an arrangement that does not take the legal form of a lease is, or contains, a lease as defined in IAS 17. As the secure tenancy agreements do not meet the definition of a lease in IAS 17, IFRIC 4 does not apply.

Annex B: Extract from IFRS 16 *Leases* of the flowchart to assist entities in making their assessment on whether a contract is or contains a lease



Annex C: Extract of Housing SORP: 2018 update statement of recommended practice for registered social housing providers provisions on rental agreements

10.3 This SORP considers that standard rental agreements for tenanted social housing properties, such as general needs properties, and most relationships between social landlords who own properties but allow other charitable or social landlords to use them for particular purposes, to be operating leases as defined in Section 20 of FRS 102, Leases. Paragraphs 20.24 to 20.31 of FRS 102 set out the accounting and disclosure requirements for operating leases, and in applying these paragraphs to rental agreements for tenanted social housing properties, a social landlord must:

- include the housing properties in the statement of financial position based on the nature of the asset as set out in Section 8 of this SORP, *Housing properties*
- recognise the rental income from the lease arrangements as income in the Statement of Comprehensive Income on a straight-line basis (unless the points highlighted at 20.25 (a) and 20.25 (b) of FRS 102 are considered relevant)
- recognise as expenditure in the Statement of Comprehensive Income any costs incurred in earning the lease income, for example depreciation and maintenance costs.

10.4 A social landlord must include the following disclosures in the financial statements in accordance with paragraph 20.30 of FRS 102:

(a) The future minimum lease payments under non-cancellable operating leases for each of the following periods:

(i) not later than one year

(ii) later than one year and not later than five years

(iii) later than five years

(b) total contingent rents recognised as income

(c) a general description of the significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses, and restrictions imposed by lease arrangements.

Annex D: Extract from Appendix F of the 2020/21 Code on operating lease disclosures for lessors

Lessor disclosures

4.2.4.12 The objective of the disclosures is for lessors to disclose information in the notes that, together with the information provided in the Balance Sheet, Comprehensive Income and Expenditure Statement and Cash Flow Statement, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor.

4.2.4.13 A lessor shall disclose the following amounts for the reporting period:

a) for finance leases:

   i) selling profit or loss

   ii) finance income on the net investment in the lease, and

   iii) income relating to variable lease payments not included in the measurement of the net investment in the lease

b) for operating leases, lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate.

4.2.4.14 A lessor shall provide the disclosures specified in paragraph 4.2.4.13 in a tabular format, unless another format is more appropriate.

4.2.4.15 A lessor shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 4.2.4.12. This additional information includes, but is not limited to, information that helps users of financial statements to assess:

a) the nature of the lessor's leasing activities, and

b) how the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.

…

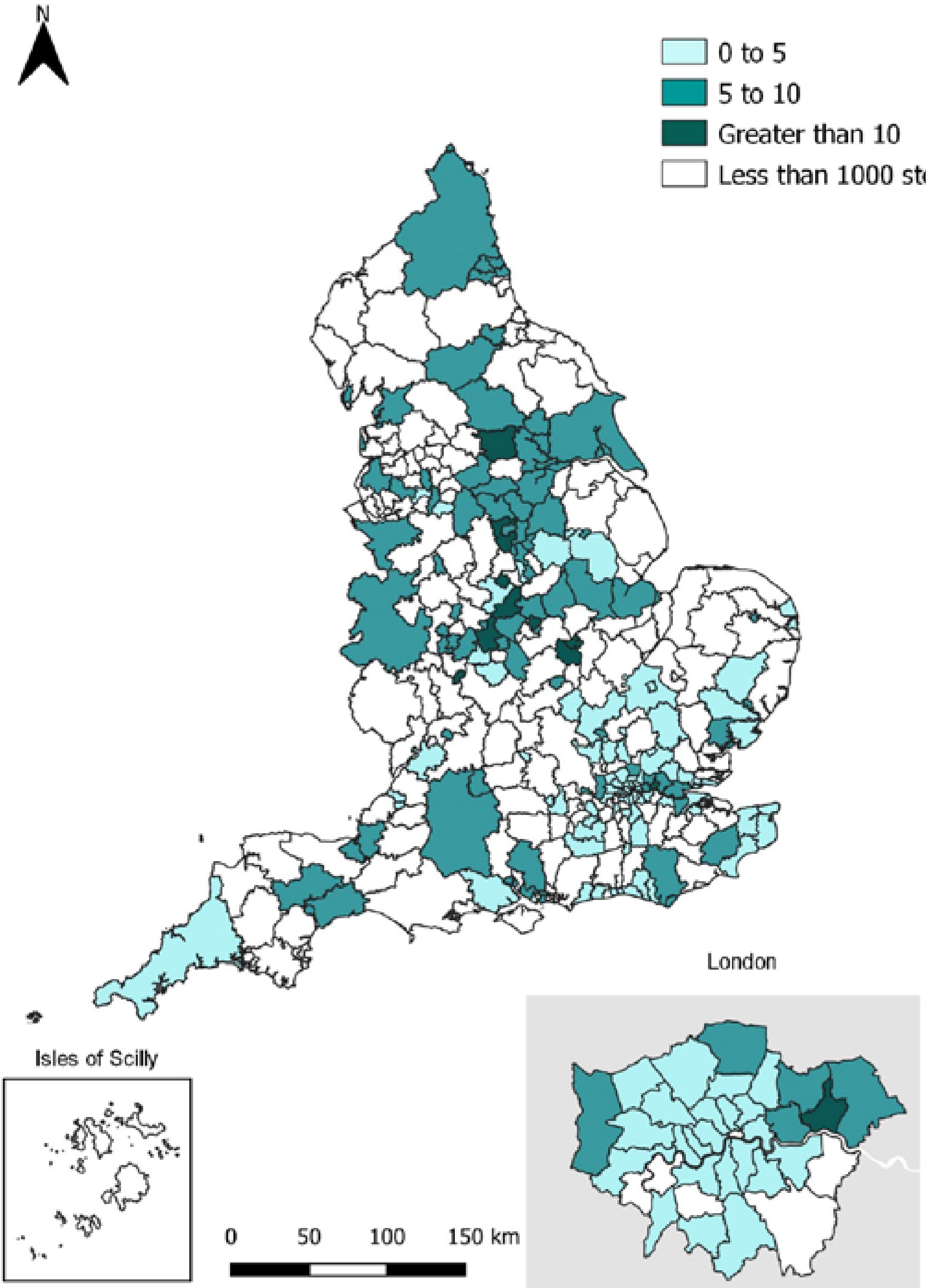
Operating leases

4.2.4.18 For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of Section 4.1. In applying the disclosure requirements in Section 4.1, a lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by IAS 16 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.

4.2.4.19 A lessor shall apply the disclosure requirements in Section 4.4 (Investment Property), Section 4.5 (Intangible Assets) and Section 4.7 (Impairment of Assets) for assets subject to operating leases.

4.2.4.20 A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

Annex E: Local authority right to buy sales per 1,000 dwellings of existing local authority housing stock in England, year ending June 2020



The non-stock holding authorities have transferred all their stock to private registered providers and are shown in white on the map above.

Source: Right to Buy Sales in England: Statistical Release January to June 2020 (MHCLG, September 2020)
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01/2021