

CHAPTER 4

Non-current assets

4.3 SERVICE CONCESSION ARRANGEMENTS: LOCAL AUTHORITY AS GRANTOR

4.3.2 Accounting arrangements

Measurement of the liability

- 4.3.2.20** Where a service concession arrangement can be separated into a service element and a construction element, the service element shall be expensed as incurred, and the construction element accounted for as if it were a **finance** lease. A contract may be separable in a variety of circumstances; see paragraph 4.3.2.13.
- 4.3.2.21** Subsequent to initial recognition, the service concession arrangement liability shall be measured following the principles set out in Section 4.2 of the Code and **IAS-17 IFRS 16 Leases** (ie following the arrangements for **assets-acquired-under-a-finance-lease measurement of the lease liability**). The liability shall be reported as a financial liability but shall be measured under Section 4.2 of the Code (Leases), not Chapter 7 (Financial Instruments).
- 4.3.2.22** Where a service concession (PPP or PFI) arrangement cannot be separated into a service element and a construction element, the service concession asset and related liability shall be measured initially at the fair value of the asset.
- Scheduled payments under the arrangement shall be allocated between a) operating costs to reflect the service element of the arrangement, b) repayment of the liability, and c) an imputed finance charge (based on the interest rate implicit in the contract). Where it is not possible to determine the rate implicit in the contract, the authority shall use its cost of capital rate (including inflation). It is expected that this situation would be rare. The liability shall be measured as a financial instrument based on elements b) and c) of the scheduled payments above, using the **same-actuarial-method-used-for-finance-leases measurement requirements for a lease liability** under Section 4.2 of the Code and **IAS-17 IFRS 16**.
- 4.3.2.23** The finance charge and charges for services provided by the operator are expenses that shall be charged to the surplus or deficit on the provision of services as incurred and presented in accordance with the presentation requirements of Section 3.4 of the Code.

Payments

- 4.3.2.20** By definition, where a PPP or PFI arrangement can be separated into construction and service elements, the payments for each element will be readily identifiable. The service element shall be charged as expenditure as incurred. The construction element shall be allocated into an element relating to the repayment of the liability and an interest element in accordance with the arrangements **for-a-finance-lease the measurement of a lease liability** (see Section 4.2 of the Code and **IAS-17 IFRS 16**). The interest element shall be charged to the surplus or deficit on the provision of services as incurred, with the balance of the payment used to reduce the outstanding liability on the Balance Sheet.

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Transition

4.3.2.44 The changes to this section of the Code relating to the measurement of the service concession arrangements liabilities in accordance with the measurement requirements for the lease liability in Section 4.2 of the Code and IFRS 16 shall follow the transition requirements for lease liabilities in Section 4.2 of the Code.

4.3.6 Changes since the 2021/22 Code

4.3.6.1 There ~~have been no changes to the~~ Service Concession Arrangements: Local Authority as Grantor section of the Code ~~since the 2020/21 Code~~ has been updated to specify that the service concession arrangement liability is measured in accordance with the measurement requirements (including the transition requirements) for the lease liability in Section 4.2 of the Code and IFRS 16.

Amendments relating to - A2. Clarification of status of housing tenancies in transitioning to IFRS 16

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4.2 LEASES AND LEASE TYPE ARRANGEMENTS

Removal of Housing Revenue Account tenancies from the scope of lease accounting disclosures

4.2.2.30 For the avoidance of doubt, the disclosure requirements of IFRS 16 Leases and this section (4.2) of the Code shall not be applied to Housing Revenue Account tenancy agreements. ~~Housing Revenue Account tenancy agreements~~ These will be presented in accordance with the relevant sections of the Code. ~~This includes~~ including Section 3.5 Housing Revenue Account, Section 4.1 Property, Plant and Equipment for owned social housing assets, and Section 2.7 Revenue from Contracts with Service Recipients for ~~Housing Revenue Account tenancy agreements income~~.

Definition of a lease

4.2.2.93 As a practical expedient, an authority shall not reassess whether a contract is, or contains, a lease at 1 April 2022 except in relation to leases for nil consideration and housing tenancies. Instead, the authority is required:

- a) to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease as adopted by the 2021/22 Code. The authority shall apply the transition requirements in paragraphs 4.2.2.95 to 4.2.2.111 to those leases.
- b) not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.