

## 4.2 LEASES

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### 4.2.1 Introduction

- 4.2.1.1 Authorities shall account for leases in accordance with IFRS 16 *Leases*, except where adaptations to fit the public sector are detailed in the Code. IPSAS 13 *Leases* is based on IAS 17 *Leases* (and does not adopt IFRS 16) and should only be considered for additional guidance where it does not contradict the provisions of IFRS 16. Transport for London is permitted, but not required, to apply the Code requirements relating to IFRS 16 implementation for the 2019/20 and 2020/21 financial years with a date of initial application of 1 April 2019. Early application by other local authorities is not permitted. It is anticipated that the standard will have a date of initial application of 1 April 2021
- 4.2.1.2 This section of the Code shall be applied in accounting for all leases except licences of intellectual property granted by a lessor within the scope of Section 2.7 and IFRS 15 *Revenue from Contracts with Customers*, service concession arrangements within the scope of Section 4.3 of the Code and IFRIC 12 *Service Concession Arrangements*, and rights held by a lessee under licensing agreements within the scope of Section 4.5 of the Code and IAS 38 *Intangible Assets*. Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources and of biological assets within the scope of IAS 41 *Agriculture* are also excluded from the scope of this section of the Code, however these are unlikely to apply to local authorities.
- 4.2.1.3 A lessee may but is not required to apply this section of the Code to leases of intangible assets other than those described in paragraph 4.2.1.2. Leases relating to heritage assets are accounted for in accordance with this section of the Code subject to the specific requirements of Section 4.10 (Heritage Assets).

#### Adaptation for the public sector context

- 4.2.1.4 The following adaptations of IFRS 16 apply:

##### Scope

- The Code adapts IFRS 16 to remove the phrase “in exchange for consideration” from the definition of a lease. All other IFRS 16 *Leases* requirements for lease identification apply.
- ~~The Code adapts IFRS 16 *Leases* to remove Housing Revenue Account tenancy agreements from the requirements of IFRS 16 *Leases*.~~

#### Interpretation for the public sector context

- 4.2.1.5 For transition arrangements the Code applies the following interpretations:
- Authorities shall not reassess whether a contract is or contains a lease at the date of initial application, except for leases for nil consideration
  - For lessee arrangements transition will be undertaken to restate balances at the date of initial application for the cumulative effect of initial application. The option to retrospectively restate prior period comparative information is not permitted.
  - For lessee arrangements the option to make adjustments on transition where the underlying asset is of low value is not permitted.
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- For lessee arrangements the option to make adjustments on transition for leases where the lease term ends within 12 months is not permitted.
  - For lessees, nil consideration leases are required to be identified with measurement of the right-of-use asset required, and a gain on transition recognised where applicable.
  - For lessors, nil consideration finance leases are required to be identified, with the asset provided to the third party required to be derecognised, and any unguaranteed residual value recognised, where applicable.

The following interpretations of IFRS 16 apply in accounting for leases and lease type arrangements after transition to IFRS 16 *Leases*:

- The Code interprets IFRS 16 to require local authorities to apply the recognition exemption to short-term leases (see paragraph 4.2.2.32).
- The Code interprets IFRS 16 to specify in more detail the accounting requirements for leases at peppercorn or nominal lease payments, or for nil consideration by following the principles in the Code for the treatment of donated assets.
- The Code interprets IFRS 16 to require that the subsequent measurement of the right- of-use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with Section 4.1 of the Code (see paragraph 4.2.2.53). This includes the use of the cost model in IFRS 16 as a proxy for current value for most right- of-use assets.
- [The Code interprets IFRS 16 so that housing tenancies are deemed to be operating leases which shall be accounted for under this section of the Code. CIPFA LASAAC has also considered the disclosure requirements for operating leases as lessors. The Board is of the view that this information is either already provided on the face of the Housing Revenue Account Income and Expenditure Statement or is not relevant for housing tenancies and therefore confirms that operating leases disclosures for lessor's shall not apply.](#)

*[Note that these amendments are based on the agreed IFRS 16 text included in Appendix F of the 2020/21 Code]*

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