

CIPFA/LASAAC Local Authority Accounting Code Board

Sub Group on Housing Tenancies and Leases

Terms of Reference

Introduction

- 1.1 In March 2020 the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC), following requests from government's Financial Reporting Advisory Board (FRAB) for further deliberation on the adaptation of IFRS 16 *Leases* for Housing tenancies, agreed to establish a sub-group to review:
- whether the adaptation to IFRS 16 relating to Housing Revenue Account tenancies appropriately reflects the economic substance of the tenancies in relating to leasing, and
 - the extent of application of IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease* and the impact on the accounting for HRA tenancies.

Background to the Review

- 2.1 In November CIPFA/LASAAC noted that there was the potential to consider Housing tenancies under the IFRS 16 *Leases* requirements (as lessor). HRA properties have historically been treated as property, plant and equipment on local authorities' balance sheets and not treated as leases under IAS 17. This treatment has been justified on the basis they are primarily for the service delivery of social housing and the authority continues to be an active user of the service potential in the assets albeit on rolling rental contract terms for tenants. Therefore assets were perceived as not within the scope of leasing standards.
- 2.2 IFRS 16 was not generally intended to significantly amend lessor accounting treatment. On the basis that IFRS 16 application would not appropriately reflect the statutory nature, arrangements and reporting framework for HRA tenancies, and to provide clarity for preparers and auditors, CIPFA/LASAAC proposed that the 2020/21 Code was specifically adapted to exclude HRA tenancies from the application of IFRS 16.
- 2.3 FRAB has raised concerns relating to the proposal to exclude Housing Revenue Account tenancy agreements. FRAB had considered that the case for exclusion required further explanation and evidence in support of CIPFA/LASAAC's proposed approach. Additionally the apparent existing non-application of IAS 17 or IFRIC 4 to HRA tenancies was noted as being the fundamental matter. FRAB members have presented a number of arguments for the adoption of IFRS 16.
- 2.4 Council house tenants have a right to remain in the property for an indefinite period, and can also have a right to buy option. Although the rental agreements may not be for an extended period, they are on 'rolling terms' that would normally have the option to terminate at 28 days' notice. Consideration should

also be given to whether under IAS 17, these should have been accounted for as if they are operating leases. However, under IFRS 16 there is a possibility that these arrangements may give rise to finance leases because of the wider consideration that needs to be given as to whether termination options are reasonably certain not to be exercised (particularly in the context of the November 2019 IFRS Interpretations Committee agenda decision on lease term).

- 2.5 Any proposal for adaptation should demonstrate that it reflects differing rights and obligations arising from different types of arrangements under accounting standards. HRA tenancies have very distinctive transfers of the risks and rewards of ownership associated with them.
- 2.6 It is noted that members of FRAB support consistency between local and central government application unless local authority's circumstances differ from central government.
- 2.7 A potential alternative may be to specify that HRA tenancies are treated as operating leases, enabling local judgement to apply as to whether operating lease treatment and disclosures are material for a local authority's accounts. Consideration of the risks associated with this treatment will need to be detailed in the CIPFA/LASAAC proposals following the outcome of the review.
- 2.8 Any solution/outcomes will need to be considered against the specifications of the Local Government and Housing Act 1989 and other relevant prescriptions for the Housing Revenue Account across England, Scotland and Wales.

Membership

- Chair - TBC
- Easton Bilsborough
- Joseph McLachlan
- Paul O'Brien
- Martin Stevens.

Objectives for the Review

- 3.1 To review the commentaries from FRAB and consider the economic substance and of the Housing tenancies as regards to leasing and the appropriateness of the agreed Code adaptation which specifies that IFRS 16 requirements are not applied to HRA tenancies.
- 3.2 Following from the review CIPFA/LASAAC will consult, as part of the 2021/22 on its conclusions and the approach to the adoption of IFRS 16. It will consider the impact on HRA tenancies including the option of limiting this to operating lease treatment and/or disclosures in relation to meeting the needs of users of local government accounts. It will also consider the implications on Whole of Government Accounts.
- 3.3 The sub group will liaise with the FRC and Housing SORP constituent members clarifying potential future plans affecting wider social housing provider reporting.

Secretariat support

- 4.1 Secretariat support will be provided by the CIPFA Policy and Technical Directorate.

Operation of the meetings

- 5.1 The meetings will operate under the operational procedures included in the [CIPFA/LASAAC Terms of Reference](#).
- 5.2 The Working Group will meet monthly using Microsoft Teams.
- 5.3 CIPFA/LASAAC will receive feedback at its meetings but where necessary out of meeting papers may be sent to the Board.
- 5.4 Notes of actions agreed at meetings will be provided and each meeting and will include relevant specified actions for members.

Recommendations

- 6.1 Any final recommendations to CIPFA/LASAAC will require approval by the majority of the group.

June 2020