

4.2 LEASES

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 (and does not adopt IFRS 16) and should only be considered for additional guidance where it does not contradict the provisions of IFRS 16.
- 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 this Code and IFRIC 12 *Service Concession Arrangements*, 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.

Adaptation for the public sector context

- 4.2.1.4** The following adaptations of IFRS 16 apply:

Recognition

The Code adapts IFRS 16 to require local authorities to apply the recognition exemption to short-term leases (see paragraph 4.2.2.30).

Measurement

The Code adapts IFRS 16 and requires 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 4.2.2.50).

4.2.2 Accounting Requirements

Definitions

- 4.2.2.1** The **commencement date of the lease** is the date on which a lessor makes an underlying asset available for use by a lessee.
- 4.2.2.2** A **concessionary lease** is a lease at below market terms.
- 4.2.2.3** A **contract** is an agreement between two or more parties that creates enforceable rights and obligations.

- 4.2.2.4 **Economic life** is either the period over which an asset is expected to be economically usable by one or more users or the number of production or similar units expected to be obtained from an asset by one or more users.
- 4.2.2.5 **Effective date of the modification** is the date when both parties agree to a lease modification.
- 4.2.2.6 **Fair value** - for the purpose of applying the lessor accounting requirements of this section of the Code and IFRS 16, the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
- 4.2.2.7 A **finance lease** (for lessors only) is a lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset.
- 4.2.2.8 **Fixed payments** are payments made by a lessee to a lessor for the right to use an underlying asset during the lease term, excluding variable lease payments.
- 4.2.2.9 The **inception date of the lease** is the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease.
- 4.2.2.10 **Initial direct costs** are the incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained, except for such costs incurred by a manufacturer or dealer lessor in connection with a finance lease.
- 4.2.2.11 The **interest rate implicit in the lease** is the rate of interest that causes the present value of:
- a) the lease payments, and
 - b) the unguaranteed residual value to equal the sum of:
 - i) the fair value of the underlying asset, and
 - ii) any initial direct costs of the lessor.
- 4.2.2.12 A **lease** is 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.
- 4.2.2.13 **Lease incentives** are payments made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee.
- 4.2.2.14 A **lease modification** is change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).
- 4.2.2.15 The **lease term** is 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.

- 4.2.2.16 A **lessee** is an authority that obtains the right to use an underlying asset for a period of time in exchange for consideration.
- 4.2.2.17 The **lessee's incremental borrowing rate** is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.
- 4.2.2.18 A **lessor** is an authority that provides the right to use an underlying asset for a period of time in exchange for consideration.
- 4.2.2.19 An **operating lease** (for lessors only) is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.
- 4.2.2.20 **Optional lease payments** are payments to be made by a lessee to a lessor for the right to use an underlying asset during periods covered by an option to extend or terminate a lease that are not included in the lease term.
- 4.2.2.21 **Period of use** is the total period of time that an asset is used to fulfil a contract with a customer (including any non-consecutive periods of time).
- 4.2.2.22 **Residual value guarantee** is a guarantee made to a lessor by a party unrelated to the lessor that the value (or part of the value) of an underlying asset at the end of a lease will be at least a specified amount.
- 4.2.2.23 The **right-of-use asset** is an asset that represents a lessee's right to use an underlying asset for the lease term.
- 4.2.2.24 A **short-term lease** is a lease that, at the commencement date, has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease.
- 4.2.2.25 An **underlying asset** is an asset that is the subject of a lease, for which the right to use that asset has been provided by a lessor to a lessee.
- 4.2.2.26 **Useful life** is the period over which an asset is expected to be available for use by an authority; or the number of production or similar units expected to be obtained from an asset by an authority.
- 4.2.2.27 **Variable lease payments** are the portion of payments made by a lessee to a lessor for the right to use an underlying asset during the lease term that varies because of changes in facts or circumstances occurring after the commencement date, other than the passage of time.
- 4.2.2.28 Further definitions, including, gross investment in the lease, lease payments, net investment in the lease, sublease, unearned finance income and unguaranteed residual value are contained in IFRS 16.

Portfolio Application

- 4.2.2.29 This section of the Code specifies the accounting for an individual lease. However, as a practical expedient, an authority may apply this section of the Code to a portfolio of

leases with similar characteristics if the authority reasonably expects that the effects on the financial statements of applying this section of the Code to the portfolio would not differ materially from applying this section of the Code to the individual leases within that portfolio. If accounting for a portfolio, an authority shall use estimates and assumptions that reflect the size and composition of the portfolio.

Recognition exemptions

4.2.2.30 A lessee shall not apply the requirements in paragraphs 4.2.2.43 to 4.2.2.62 to short term leases.

4.2.2.31 A lessee may elect not to apply the requirements in paragraphs 4.2.2.43 to 4.2.2.62 to leases where the underlying asset is of low value. A lessee shall assess the value of an underlying asset based on the value of the asset when it is new, regardless of the age of the asset being leased. The assessment of whether an underlying asset is of low value is performed on an absolute basis. Leases of low-value assets qualify as such regardless of whether those leases are material to the lessee. The election for leases for which the underlying asset is of low value can be made on a lease-by-lease basis. See also paragraphs B3 to B8 of IFRS 16 for further guidance on low value assets.

4.2.2.32 Where a lessee holds a short-term lease or if a lessee elects not to apply the requirements in paragraphs 4.2.2.43 to 4.2.2.62 to leases for which the underlying asset is of low value, the lessee shall recognise the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis. The lessee shall apply another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

4.2.2.33 Where a lessee holds a short-term lease the lessee shall consider the lease to be a new lease for the purposes of this section of the Code if:

- a) there is a lease modification, or
- b) there is any change in the lease term.

Identifying a lease

4.2.2.34 At inception of a contract, an authority shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration (see paragraphs B9 to B31 of IFRS 16 for guidance on an assessment whether a contract is or contains a lease). Specifically to assess whether a contract is or contains a lease an authority will need to consider:

- whether the asset is explicitly or implicitly identified in a contract (see paragraph B13 of IFRS 16)
- if an asset is specified in a contract whether the supplier has a substantive right to substitute (see paragraphs B14 to B19 of IFRS 16)
- whether the asset specified in a contract is physically distinct (see paragraph B20 of

IFRS 16)

- whether the customer has the right to obtain substantially all of the economic benefits and service potential from use of the asset throughout the period of use (see paragraph 4.2.2.35 and B21 to B23 of IFRS 16), and
- whether the customer has the right to direct the use of the asset throughout the period of use (B24 to B30 of IFRS 16).

4.2.2.35 To control the use of an identified asset, a customer is required to have the right to obtain substantially all of the economic benefits and service potential from use of the asset throughout the period of use (for example, by having exclusive use of the asset throughout that period). A customer can obtain economic benefits from use of an asset directly or indirectly in many ways, such as by using, holding or sub-leasing the asset. The economic benefits or service potential from use of an asset include its primary output and by-products (including potential cash flows derived from these items), and other economic benefits from using the asset that could be realised from a commercial transaction with a third party.

Assessing Whether the Lease is at Market Terms or at Below Market Terms

4.2.2.36 A lessee will determine whether the lease is at market terms or at below market terms. In certain circumstances, such as when a lessor transfers the right to use an underlying asset to the lessee that is at market terms, the lease is an exchange transaction. In other circumstances, such as when a lessor transfers the right to use an underlying asset to the lessee that is at below market terms, the lease is a concessionary lease. In these cases, the lease can have exchange and non-exchange components. In determining whether a lease has identifiable exchange or non-exchange components, professional judgment is exercised. Where it is not possible to distinguish separate exchange and non-exchange components (for example, leases for zero consideration) or the consideration is only of nominal amount, the lease is treated as a non-exchange transaction.

4.2.2.37 An authority shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

Separating components of a contract

4.2.2.38 For a contract that is, or contains, a lease, an authority shall account for each lease component within the contract as a lease separately from non-lease components of the contract, unless it applies the practical expedient in paragraph 4.2.2.40.

Separating components of a contract - Lessee

4.2.2.39 For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

4.2.2.40 As a practical expedient, a lessee may elect, by class of underlying asset, not to separate

non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Lease term

4.2.2.41 An authority shall determine the lease term as the non-cancellable period of a lease, 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.

4.2.2.42 An authority shall revise the lease term if there is a change in the non-cancellable period of a lease. For example, the non-cancellable period of a lease will change if:

- a) the lessee exercises an option not previously included in the authority's determination of the lease term
- b) the lessee does not exercise an option previously included in the authority's determination of the lease term
- c) an event occurs that contractually obliges the lessee to exercise an option not previously included in the entity's determination of the lease term, or
- d) an event occurs that contractually prohibits the lessee from exercising an option previously included in the authority's determination of the lease term.

Recognition – lessees

4.2.2.43 At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.

Initial measurement – lessees

Initial measurement of the right-of-use asset

4.2.2.44 At the commencement date, a lessee shall measure the right-of-use asset at cost.

4.2.2.45 The cost of the right-of-use asset shall comprise:

- a) the amount of the initial measurement of the lease liability, as described in paragraph 4.2.2.47
- b) any lease payments made at or before the commencement date, less any lease incentives received
- c) any initial direct costs incurred by the lessee, and
- d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those

costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

A lessee shall recognise the costs described in d) as part of the cost of the right-of-use asset when it incurs an obligation for those costs..

4.2.2.46 Where a right-of-use asset is acquired through a concessionary lease, its cost shall be measured at its fair value as at the commencement date.

Initial measurement of the lease liability

4.2.2.47 At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

4.2.2.48 At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- a) fixed payments (including in-substance fixed payments as described in paragraph B42 of IFRS 16), less any lease incentives receivable
- b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (see paragraph 28 of IFRS 16)
- c) amounts expected to be payable by the lessee under residual value guarantees
- d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in paragraphs B37 to B40 of IFRS 16), and
- e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

4.2.2.49 Where a lease liability is recognised through a concessionary lease, its cost shall be measured at its fair value as at the commencement date. The fair value of the lease liability is measured by discounting the contractual lease payments using the lessee's incremental borrowing rate, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use market interest rates.

Subsequent measurement

Subsequent measurement of the right-of-use asset

4.2.2.50 After the commencement date a lessee shall measure the right of use asset in accordance with section 4.1 for property, plant and equipment. Where the cost model is used under section 4.1 a lessee shall make the relevant adjustment for any remeasurement of the lease liability specified in paragraph 4.2.2.52 c) and apply the depreciation requirements

of section 4.1 subject to paragraph 32 of IFRS 16. Otherwise the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. A lessee shall apply the requirements of section 4.7 to determine whether the right of use asset is impaired.

4.2.251 If a lessee applies the fair value model in section 4.4 of the Code and IAS 40 *Investment Property* to its investment property, the lessee shall also apply that fair value model to right-of-use assets that meet the definition of investment property in section 4.4 of the Code. Note that section 4.4 of the Code anticipates that the fair value model is applied in all but exceptional circumstances (see section 4.4).

Subsequent measurement of the lease liability

4.2.252 After the commencement date, a lessee shall measure the lease liability by:

- a) increasing the carrying amount to reflect interest on the lease liability
- b) reducing the carrying amount to reflect the lease payments made, and
- c) remeasuring the carrying amount to reflect any reassessment or lease modifications specified in paragraphs 4.2.2.56 and 40 to 43 of IFRS 16 and 4.2.2.56 to 4.2.2.59, or to reflect revised in-substance fixed lease payments (see paragraph B42 of IFRS 16).

4.2.253 Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate described in paragraph 4.2.2.47, or if applicable the revised discount rate described in paragraph 41 of IFRS 16, paragraph 43 of IFRS 16 or paragraph 4.2.2.58 c).

4.2.254 After the commencement date, a lessee shall recognise in Surplus or Deficit on the provision of Services, unless the costs are included in the carrying amount of another asset applying other sections of the Code both:

- a) interest on the lease liability, and
- b) variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs

4.2.255 The periodic rate of interest in a concessionary lease is the discount rate described in paragraph 4.2.2.49 or if applicable the revised discount rate at the moment of reassessment of the lease liability and lease modifications.

Reassessment of the lease liability

4.2.256 After the commencement date, a lessee shall apply paragraphs 40 to 43 of IFRS 16 to remeasure the lease liability to reflect changes to the lease payments. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in the Surplus or Deficit on the Provision of Services.

4.2.2.57 A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if either:

- a) there is a change in the lease term, as described in paragraphs 20 of IFRS 9 and 4.2.2.42. A lessee shall determine the revised lease payments on the basis of the revised lease term, and
- b) there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances described in paragraphs in paragraphs 20 of IFRS 9 and 4.2.2.42 in the context of a purchase option. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

In applying paragraph 4.2.2.57, a lessee shall determine the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined. In the case of a concessionary lease, a lessee shall apply the discount rate identified in paragraph 4.2.2.49.

4.2.2.58 A lessee shall remeasure the lease liability by discounting the revised lease payments, if either:

- a) there is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee, and
- b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (ie when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments.

In applying paragraph 4.2.2.58, a lessee shall use an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In that case, the lessee shall use a revised discount rate that reflects changes in the interest rate.

Lease modifications

4.2.2.59 A lessee shall account for a lease modification as a separate lease if both:

- a) the modification increases the scope of the lease by adding the right to use one or more underlying assets
- b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

4.2.2.60 For a lease modification that is not accounted for as a separate lease, at the effective date

of the lease modification a lessee shall:

- a) allocate the consideration in the modified contract applying paragraphs 4.2.2.39 and paragraphs 14 and 16 of IFRS 16
- b) determine the lease term of the modified lease applying paragraphs 4.2.2.41 and 19 of IFRS 16, and
- c) remeasure the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

4.2.2.61 For a lease modification that is not accounted for as a separate lease, the lessee shall account for the remeasurement of the lease liability by:

- a) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The lessee shall recognise in Surplus or Deficit on the Provision of Services any gain or loss relating to the partial or full termination of the lease
- b) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

Presentation

4.2.2.62 A lessee shall either present in the Balance Sheet, or disclose in the notes:

- a) right-of-use assets separately from other assets – if a lessee does not present right-of-use assets separately Balance Sheet the lessee shall:
 - i) include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned, and
 - ii) disclose which line items in the Balance Sheet include those right-of-use assets
- b) lease liabilities separately from other liabilities – if the lessee does not present lease liabilities separately in the Balance Sheet, the lessee shall disclose which line items in the Balance Sheet include those liabilities.

4.2.2.63 The requirement in paragraph 4.2.2.62 a) does not apply to right-of-use assets that meet the definition of investment property, which shall be presented in the Balance Sheet within the investment property line item.

4.2.2.64 The depreciation charge for the right-of-use asset is recognised in the gross expenditure, gross income and net expenditure of continuing operations, interest expense on the lease liability shall be recognised in financing and investment income and expenditure in the Comprehensive Income and Expenditure Statement.

4.2.2.65 In the Cash Flow Statement, a lessee shall classify:

- a) cash payments for the principal portion of the lease liability within financing activities
- b) cash payments for the interest portion of the lease liability applying the requirements

in IAS 7 *Statement of Cash Flows* for interest paid, and

- c) short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

Classification of leases - Lessors

4.2.2.66 A lessor shall classify each of its leases as either an operating lease or a finance lease. 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.

4.2.2.67 Lease classification is made at the inception date and is reassessed only if there is a lease modification. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased property), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

4.2.2.68 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- a) the lease transfers ownership of the underlying asset to the lessee by the end of the lease term
- 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
- c) the lease term is for the major part of the economic life of the underlying asset even if title is not transferred
- 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, and
- e) the underlying asset is of such a specialised nature that only the lessee can use it without major modifications

Where leases of assets are provided on non-commercial terms, ie for nominal or at peppercorn rents or lease payments, authorities will need to consider the substance of the transaction. CIPFA/LASAAC is of the view that it is likely that the situation set out at point d) above will not apply to an authority's analysis of the classification of the lease where lease payments are nominal or at a peppercorn. Note that this exception is only relevant for transactions on non-commercial terms and would not be relevant, for example, where lease arrangements also include a substantial payment (ie a lease premium). As a part of the authority's analysis of the accounting treatment of the non-commercial lease it will need to consider whether there are other transactions or

arrangements involving the parties which need to be taken into account to determine the overall substance of the arrangement.

4.2.2.69 Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

- a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee
- b) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee
- c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

4.2.2.70 In classifying a sublease, an intermediate lessor shall classify the sublease as a finance lease or an operating lease in accordance with paragraph B58 of IFRS 16.

Separating the components of a contract - lessors

4.2.2.71 For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract applying paragraphs 2.7.2.36 to 2.7.2.39 of the Code and 73 to 90 of IFRS 15.

Finance leases - lessors

Recognition

4.2.2.72 At the commencement date, a lessor shall recognise assets held under a finance lease in its Balance Sheet and present them as a receivable at an amount equal to the net investment in the lease.

Initial Measurement

4.2.2.73 The lessor shall use the interest rate implicit in the lease to measure the net investment in the lease. In the case of a sublease, if the interest rate implicit in the sublease cannot be readily determined, an intermediate lessor may use the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease. Initial indirect costs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term.

4.2.2.74 At the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:

- a) fixed payments (including in-substance fixed payments as described in paragraph B42 of IFRS 16), less any lease incentives payable
- b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date

- c) any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee
- d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in paragraph B37 of IFRS 16), and
- e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease).

Subsequent measurement - lessors

4.2.2.75 A lessor shall recognise finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

4.2.2.76 A lessor shall apply the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income. A lessor shall apply the derecognition and impairment requirements in section 7.2.9 of the Code and IFRS 9 to the net investment in the lease. A lessor shall review regularly estimated unguaranteed residual values used in computing the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual value, the lessor shall revise the income allocation over the lease term and recognise immediately any reduction in respect of amounts accrued.

Operating leases - lessors

Recognition and Measurement

4.2.2.77 A lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished. Costs, including depreciation, incurred in earning the lease income are recognised as an expense.

4.2.2.78 A lessor shall add initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognise those costs as an expense over the lease term on the same basis as the lease income.

4.2.2.79 The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets.

Lease Modifications

4.2.2.80 A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Sale and leaseback transactions

4.2.2.81 If an authority (the seller-lessee) transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor shall account for the transfer contract and the lease applying paragraphs 4.2.2.81 to 4.2.2.86.

Assessing whether the transfer of the asset is a sale

4.2.2.82 An authority shall apply the requirements for determining when a performance obligation is satisfied in section 2.7 of the Code and IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset.

Transfer of the asset is a sale

4.2.2.83 If the transfer of an asset by the seller-lessee satisfies the requirements of section 2.7 of the Code and IFRS 15 to be accounted for as a sale of the asset:

- a) the seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor
- b) the buyer-lessor shall account for the purchase of the asset applying the relevant sections of the Code ie (sections 4.1.,4.2 and 4.3), and for the lease applying the lessor accounting requirements in this section of the Code.

4.2.2.84 If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an authority shall make the following adjustments to measure the sale proceeds at fair value:

- a) any below-market terms shall be accounted for as a prepayment of lease payments
- b) any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

4.2.2.85 The authority shall measure any potential adjustment required by paragraph 4.2.2.84 on the basis of the more readily determinable of:

- a) the difference between the fair value of the consideration for the sale and the fair value of the asset
- b) the difference between the present value of the contractual payments for the lease and the present value of payments for the lease at market rates.

Transfer of the asset is not a sale

4.2.2.86 If the transfer of an asset by the seller-lessee does not satisfy the requirements of section 2.7 and IFRS 15 to be accounted for as a sale of the asset:

- a) the seller-lessee shall continue to recognise the transferred asset and shall recognise

a financial liability equal to the transfer proceeds. It shall account for the financial liability applying chapter seven of the Code and IFRS 9

- b) the buyer-lessor shall not recognise the transferred asset and shall recognise a financial asset equal to the transfer proceeds. It shall account for the financial asset applying chapter seven of the Code and IFRS 9.

Transition

4.2.2.87 An authority shall apply this section of the Code and IFRS 16 for annual reporting periods beginning on or after 1 April 2019.

Definition of a Lease

4.2.2.88 As a practical expedient, an authority shall not reassess whether a contract is, or contains, a lease at 1 April 2019. 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 2018/19 Code. The authority shall apply the transition requirements in paragraphs 4.2.2.90 to 4.2.2.102 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.

4.2.2.89 If an authority chooses the practical expedient in paragraph 4.2.2.88, it shall disclose that fact and apply the practical expedient to all of its contracts including concessionary leases. As a result, the authority shall apply the requirements in paragraphs 4.2.2.34 to 4.2.2.35 and 4.2.2.37 only to contracts entered into (or changed) on or after 1 April 2019.

Lessees

4.2.2.90 A lessee shall apply IFRS 16 as adopted by this section of the Code to its leases, including concessionary leases, retrospectively with the cumulative effect of initially applying the IFRS 16 recognised at 1 April 2019 in accordance with paragraphs 4.2.2.91 to 4.2.2.97.

4.2.2.91 The lessee shall not restate comparative information. The lessee shall recognise the cumulative effect of initially applying IFRS 16 as adopted by the Code as an adjustment to the opening balance of reserves at 1 April 2019.

Leases previously classified as operating leases

4.2.2.92 The lessee shall:

- a) recognise a lease liability at 1 April 2019 for leases previously classified as an operating lease applying IAS 17. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application
- b) recognise a right-of-use asset at 1 April 2019 for leases previously classified as an operating lease applying IAS 17, the lessee shall measure the right-of-use asset at an

amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in Balance Sheet immediately before 1 April 2019.

- c) apply section 4.7 to right-of-use assets at the date of initial application, unless the lessee applies the practical expedient in paragraph 4.2.2.94 b).

4.2.2.93 Notwithstanding the requirements in paragraph 4.2.2.92, for leases previously classified as operating leases applying IAS 17, a lessee:

- a) shall not make any adjustments on transition for leases for which the underlying asset is of low value (as described in paragraphs B3 to B8 of IFRS 16) that will be accounted for applying paragraph 4.2.2.32. The lessee shall account for those leases applying this section of the Code from 1 April 2019
- b) is not required to make any adjustments on transition for leases previously accounted for as investment property using the fair value model in section 4.4. of the Code and IAS 40 *Investment Property*. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying section 4.4 of the Code and IFRS 16 from 1 April 2019
- c) shall measure the right-of-use asset at fair value at the date of 1 April 2019 for leases previously accounted for as operating leases applying IAS 17 and that will be accounted for as investment property using the fair value model in section 4.4 and IAS 40 from 1 April 2019. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying section 4.4 and IAS 40 and IFRS 16 from 1 April 2019.

4.2.2.94 A lessee may use one or more of the following practical expedients when applying this Standard retrospectively to leases previously classified as operating leases applying IAS 17. A lessee is permitted to apply these practical expedients on a lease-by-lease basis:

- a) a lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment)
- b) a lessee may rely on its assessment of whether leases are onerous applying section 8.2 of the Code and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before 1 April 2019 as an alternative to performing an impairment review. If a lessee chooses this practical expedient, the lessee shall adjust the right-of-use asset at 1 April 2019 by the amount of any provision for onerous leases recognised in Balance Sheet immediately before 1 April 2019
- c) a lessee shall not apply the requirements in paragraph 4.2.2.92 to leases for which the lease term ends within 12 months of the date of initial application. A lessee shall.
 - i) account for those leases in the same way as short-term leases as described in paragraph 4.2.2.32; and
 - ii) include the cost associated with those leases within the disclosure of short-term lease expense in the annual reporting period that includes the 1 April 2019

- d) a lessee may exclude initial direct costs from the measurement of the right-of-use asset at 1 April 2019.
- e) a lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Leases previously classified as finance leases

4.2.2.95 For leases that were classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 April 2019 shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17. For those leases, a lessee shall account for the right-of-use asset and the lease liability applying IFRS 16 from 1 April 2019.

Disclosure

4.2.2.96 The lessee shall disclose the following information about initial application:

- a) the title - IFRS 16 *Leases*
- b) confirmation that the change in accounting policy is made in accordance with the transitional provisions in the Code for the adoption of IFRS 16
- c) the nature of the change in accounting policy
- d) a description of the transitional provisions
- e) the weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the Balance Sheet at 1 April 2019
- f) an explanation of any difference between:
 - i) operating lease commitments disclosed applying IAS 17 at the end of the annual reporting period immediately preceding 1 April 2019 date of initial application, discounted using the incremental borrowing rate at 1 April 2019 as described in paragraph 4.2.2.92 a)
 - ii) lease liabilities recognised in the Balance Sheet at 1 April 2019.

4.2.2.97 If a lessee uses one or more of the specified practical expedients in paragraph 4.2.2.94, it shall disclose that fact.

Lessors

4.2.2.98 Except as described in paragraph 4.2.2.99, a lessor is not required to make any adjustments on transition for leases in which it is a lessor and shall account for those leases applying IFRS 16 as adopted by the Code from 1 April 2019.

4.2.2.99 An intermediate lessor shall:

- a) reassess subleases that were classified as operating leases applying IAS 17 and are ongoing at 1 April 2019, to determine whether each sublease should be classified as an operating lease or a finance lease applying IFRS 16. The intermediate lessor shall perform this assessment at the date of initial application on the basis of the

remaining contractual terms and conditions of the head lease and sublease at that date

- b) for subleases that were classified as operating leases applying IAS 17 but finance leases applying IFRS 16, account for the sublease as a new finance lease entered into at 1 April 2019.

Sale and leaseback transactions before 1 April 2019

4.2.2.100 An authority shall not reassess sale and leaseback transactions entered into before 1 April 2019 to determine whether the transfer of the underlying asset satisfies the requirements in section 2.7 of the Code and IFRS 15 to be accounted for as a sale.

4.2.2.101 If a sale and leaseback transaction was accounted for as a sale and a finance lease applying IAS 17, the seller-lessee shall:

- a) account for the leaseback in the same way as it accounts for any other finance lease that exists at 1 April 2019, and
- b) continue to amortise any gain on sale over the lease term.

4.2.2.102 If a sale and leaseback transaction was accounted for as a sale and operating lease applying IAS 17, the seller-lessee shall

- a) account for the leaseback in the same way as it accounts for any other operating lease that exists at 1 April 2019 and
- b) adjust the leaseback right-of-use asset for any deferred gains or losses that relate to off-market terms recognised in the Balance Sheet immediately before 1 April 2019.

4.2.3 Statutory Accounting Requirements

4.2.3.1 There are no statutory accounting requirements in respect of operating leases other than those in relation to those leases reclassified on transition to IFRS (see below).

Assets held by an authority (as a lessee) under a lease

4.2.3.2 Depreciation, impairment and gains or losses on revaluation charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

4.2.3.3 Minimum Revenue Provision (England, Northern Ireland and Wales) and the repayment of the liability (Scotland) are proper charges to the General Fund, but do not appear in the Comprehensive Income and Expenditure Statement. Such amounts shall be transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement. The amounts of Minimum Revenue Provision or repayment of the liability to be charged to the General Fund for the year are set out in the appropriate regulations and statutory guidance (see part 2 of Appendix B for the legislative basis).

4.2.3.4 Gains and losses on the disposal of an investment property held under a lease are subject

to the statutory accounting requirements set out in section 4.4.3 of the Code.

Assets disposed of by means of a finance lease (local authority as lessor)

- 4.2.3.5** Gains and losses on the disposal of property, plant or equipment by way of a finance lease are subject to the statutory accounting requirements set out in section 4.1.3 of the Code. The proceeds on disposal are the amount recognised as a receivable.
- 4.2.3.6** Gains and losses on the disposal of an intangible asset by way of a finance lease are subject to the statutory accounting requirements set out in section 4.5.3 of the Code. The proceeds on disposal are the amount recognised as a receivable.
- 4.2.3.7** Gains and losses on the disposal of an investment property by way of a finance lease are subject to the statutory accounting requirements set out in section 4.4.3 of the Code. The proceeds on disposal are the amount recognised as a receivable.
- 4.2.3.8** A sale and leaseback arrangement that results in a finance lease is not a disposal for the purposes of this section of the Code.
- 4.2.3.9** Amounts received as part of the repayment of a finance lease that reduce the lessee's obligation are classed as capital receipts (see part 2 of Appendix B for the legislative basis). In Scotland, capital receipts fall to be defined in accordance with proper accounting practice. Authorities shall recognise the capital receipt by debiting the Capital Adjustment Account and crediting the Capital Receipts Reserve or (in Scotland) a statutory capital fund.

Leases reclassified on transition to IFRS (authority is lessor)

- 4.2.3.10** In England and Wales, income received under a lease that was reclassified on transition to IFRS continues to be treated as either a capital receipt or as revenue income according to its status prior to reclassification (see part 2 of Appendix B for the legislative basis).
- 4.2.3.11** Where a lease has been reclassified as a finance lease on transition to IFRS, income received under the lease shall continue to be treated as revenue income. An authority shall transfer the capital receipt to the General Fund and report the transaction in the Movement in Reserves Statement.
- 4.2.3.12** Where a lease has been reclassified as an operating lease on transition to IFRS, any income that would, prior to the reclassification, have been treated as a capital receipt shall be transferred from the General Fund to the Capital Receipts Reserve; and the transfer shall be reported in the Movement in Reserves Statement.
- 4.2.3.13** In Scotland, no statutory guidance was issued on transition to IFRS so authorities shall account for all income received from leases in line with classification of the leases under the Code.
- 4.2.3.14** In Northern Ireland, where an operating lease has been reclassified as a finance lease on transition to IFRS, income received under the lease shall continue to be treated as revenue income. An authority shall transfer the capital receipt to the General Fund and report the transaction in the Movement in Reserves Statement.

Concessionary Leases

- 4.2.3.15 The gain recognised in the Comprehensive Income and Expenditure Statement on entry into a concessionary lease is not a proper charge to the General Fund. In accordance with statutory provisions such amounts shall be transferred to the Capital Adjustment Account.

4.2.4 Disclosure Requirements

- 4.2.4.1 Disclosure of accounting policies in relation to leases is required, where these accounting policies are significant to the authority's financial statements (see section 3.4 of the Code).

Lessee disclosures

- 4.2.4.2 The objective of the disclosures is for lessees 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 lessee.
- 4.2.4.3 Having regard to paragraph 3.4.2.27 of the Presentation of Financial Statements section of the Code, which permits authorities not to provide a specific disclosure if information is not material, authorities (acting as lessees and/or lessors) shall disclose information about leases in a single note or a separate section of the financial statements, in addition to meeting the requirements of Financial Instruments: Disclosures (see chapter seven). However a lessee need not duplicate information that is already presented elsewhere in the financial statements provided there is appropriate cross referencing.
- 4.2.4.4 A lessee shall disclose the following amounts for the reporting period:
- a) depreciation charge for right-of-use assets by class of underlying asset
 - b) interest expense on lease liabilities.
 - c) the expense relating to short-term leases accounted for applying paragraph 4.2.2.32. This expense need not include the expense relating to leases with a lease term of one month or less
 - d) the expense relating to leases of low-value assets accounted for applying paragraph 4.2.2.32. This expense shall not include the expense relating to short-term leases of low-value assets included in paragraph 4.2.4.4.c)
 - e) the expense relating to variable lease payments not included in the measurement of lease liabilities
 - f) income from subleasing right-of-use assets.
 - g) total cash outflow for leases
 - h) additions to right-of-use assets.
 - i) gains or losses arising from sale and leaseback transactions, and
 - j) the carrying amount of right-of-use assets at the end of the reporting period by class

of underlying asset.

- 4.2.4.5** A lessee shall provide the disclosures specified in paragraph 4.2.4.4 in a tabular format, unless another format is more appropriate. The amounts disclosed shall include costs that a lessee has included in the carrying amount of another asset during the reporting period.
- 4.2.4.6** A lessee shall disclose the amount of its lease commitments for short-term leases accounted for applying paragraph 4.2.2.32 if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed applying paragraph 4.2.4.4.c) relates.
- 4.2.4.7** If right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in IAS 40. In that case, a lessee is not required to provide the disclosures in paragraph 4.2.4.4 a), f), h) or j) for those right-of-use assets.
- 4.2.4.8** If a lessee measures right-of-use assets at revalued amounts applying IAS 16, the lessee shall disclose the information required by paragraph 4.1.4.4 4) for those right-of-use assets.
- 4.2.4.9** A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs 7.3.3.22 and B11 of IFRS 7 *Financial Instruments: Disclosures* separately from the maturity analyses of other financial liabilities.
- 4.2.4.10** In addition to the disclosures required in paragraphs 4.2.4.4 to 4.2.4.9, a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 4.2.4.2 (as described in paragraph B48 of IFRS 16). This additional information may include, but is not limited to, information that helps users of financial statements to assess:
- a) the nature of the lessee's leasing activities
 - b) future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:
 - i) variable lease payments (as described in paragraph B49 of IFRS 16)
 - ii) extension options and termination options (as described in paragraph B50 of IFRS 16)
 - iii) residual value guarantees (as described in paragraph B51 of IFRS 16), and
 - iv) leases not yet commenced to which the lessee is committed
 - c) restrictions or covenants imposed by leases, and
 - d) sale and leaseback transactions (as described in paragraph B52 of IFRS 16).
- 4.2.4.11** A lessee that accounts for leases of low-value assets applying paragraph 4.2.2.32 shall disclose that fact.
- 4.2.4.12** For concessionary leases received, a lessee shall also disclose:
- a) the subsidy recognised as a liability and as revenue in the period
 - b) leases repaid during the period

- c) other changes, and
- d) valuation assumptions.

Lessor disclosures

42.4.13 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.

42.4.14 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.

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

42.4.16 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.

Finance Leases

42.4.17 A lessor shall provide a qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases.

42.4.18 A lessor shall disclose a maturity analysis of the lease payments receivable, 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. A lessor shall reconcile the undiscounted lease payments to the net investment in the lease. The reconciliation shall identify the unearned finance income relating to the lease payments receivable and any discounted unguaranteed residual value.

Operating Leases

- 42.4.19** 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
- 42.4.20** A lessor shall apply the disclosure requirements in section 4.1, section 4.5 and section 4.5 for assets subject to operating leases.
- 42.4.21** 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.

4.2.5 Statutory Disclosure Requirements

- 42.5.1** There are no statutory disclosures required in relation to leases.

4.2.6 Changes since the 2018/19 Code

- 42.6.1** The Leases section of the 2019/20 Code has been fully revised to adopt the provisions of IFRS 16.

Consequential Amendments – Service Concession Arrangements

4.3 SERVICE CONCESSION ARRANGEMENTS: LOCAL AUTHORITY AS GRANTOR

Measurement of the liability

- 43.220 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.
- 43.221 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-IFRS 16~~ [17 Leases](#) (ie [for the measurement of the lease liability following the arrangements for assets acquired under a finance lease](#)). The liability shall be reported as a financial liability but shall be measured under section 4.2 of the Code (Leases), not chapter seven of the Code (Financial Instruments).
- 43.222 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.
- 43.223 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~~ [method measurement requirements for the lease liability used for finance leases](#) under section 4.2 of the Code and ~~IAS-IFRS 16~~ [17](#).
- 43.224 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

- 43.225 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 the lease liability](#) (see section 4.2 of the Code and ~~IAS-IFRS 16~~ [17](#)). 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.

4.3.2.26 Where the PPP or PFI arrangement cannot be separated into construction and service elements, payments by the local authority to an operator shall be separated into three elements – the service charge, repayment of the liability, and interest.

4.3.2.27 The service element of the payments shall be estimated, which could be achieved by obtaining information from the operator or by estimating the fair value of the services. The fair value of the service concession asset (the cost to purchase the asset) determines the amount to be recognised as an asset with an offsetting liability. The total unitary payment is then divided into three: the service charge element, repayment of the liability and the interest element (using 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.

Other liabilities, commitments, contingent liabilities and contingent assets

4.3.2.28 Local authorities shall account for other liabilities, commitments, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with section 8.2 (Provisions, Contingent Liabilities and Contingent Assets) of the Code and, where relevant, chapter seven of the Code.

Other revenues

4.3.2.29 Local authorities shall account for revenues from a service concession arrangement in accordance with section 2.7 (Revenue Recognition). For example, a local authority shall recognise any income received as a result of a revenue-sharing clause within the service concession (PPP or PFI) arrangement as it is earned.

4.3.2.30 A local authority shall also recognise any income due from the operator under the service concession (PPP or PFI) arrangement as it is earned over the life of the agreement. Income will normally be earned as a result of providing assets to the operator; until the assets are provided to the operator, any income will not have been earned and any payments received shall be accounted for as prepayments.

Local authority assets

4.3.2.31 A service concession arrangement may make use of the existing assets of a local authority. A local authority shall recognise upgrades/additions to those assets and any additional assets provided by the operator in accordance with paragraphs 4.3.2.8 to 4.3.2.10 of the Code.

4.3.2.32 A local authority may provide the operator with access to existing assets of the authority that are not to be used in the service concession arrangement in exchange for reduced or eliminated payments. This may involve a permanent transfer of the assets to the operator, or may allow the operator access for a specified period (which may or may not be the same as the period of the service concession arrangement).

43.233 Where the arrangement involves a permanent transfer of an asset to the operator, the local authority shall derecognise the asset in accordance with paragraphs 4.1.2.48 to 4.1.2.54 of the Code and IAS 16. The authority shall also recognise on the Balance Sheet the consideration received for the asset transferred to the operator. Depending on the circumstances of the arrangement, this may be the reduction or elimination of an existing liability; a prepayment; or assets provided by the operator. Any difference between the carrying value of the asset given up and the consideration received from the operator shall be recognised in the Surplus or Deficit on the Provision of Services.

43.234 Where the arrangement does not involve a permanent transfer of the assets to the operator, a local authority shall account for the arrangement as a lease under section 4.2 of the Code and ~~IAS-IFRS 16~~¹⁷. Where the asset provided by the authority is provided in the form of an operating lease, there is not a disposal of the asset, which remains on the authority's Balance Sheet. The granting of the operating lease is one element of the consideration provided to the operator for the provision of the asset and services.

43.235 Over the period of the operating lease, the authority shall recognise income from the operating lease in Surplus or Deficit on the Provision of Services. At the point that the income is recognised, the authority shall recognise a corresponding expense in Surplus or Deficit on the Provision of Services in respect of a reduction in the liability to pay for the infrastructure.

43.236 Where the asset provided by the authority is provided in the form of a finance lease, the local authority shall derecognise the asset in accordance with section 4.2 of the Code and ~~IAS-IFRS 16~~¹⁷. The authority shall also recognise on the Balance Sheet the consideration received from the operator. Depending on the circumstances of the arrangement, this may be the reduction or elimination of an existing liability, a prepayment, or asset provided by the operator. Any difference between the carrying value of the asset given up and the consideration received from the operator shall be recognised in Surplus or Deficit on the Provision of Services.

43.237 Where the arrangement involves either a finance lease or an operating lease, any payments to be made by the operator for use of the asset are to be taken into account when measuring the assets and liabilities to be recognised on the Balance Sheet.

...

4.3.6 Changes since the ~~2017~~^{2018/18-19} Code

44.61 The ~~re have been no changes to the~~ Service Concession Arrangements: Local Authority as Grantor section of the Code ~~since the 2018/19 Code~~^{has been updated to specify that the service concession arrangement liability is measured in accordance with the measurement requirements for lease liabilities under IFRS 16.}

Concepts and principles

2.3 GOVERNMENT AND NON-GOVERNMENT GRANTS

Recognition and presentation – grants and contributions

...

232.16 The benefit of a loan at a below market rate¹ of interest is treated as a grant or contribution. The loan shall be recognised and measured in accordance with chapter seven of the Code (also see IFRS 9 *Financial Instruments*). The benefit of the below market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with chapter seven of the Code and the proceeds received. It is expected that in the majority of circumstances the loan will be for the acquisition or enhancement of an asset and as such the benefit is accounted for in accordance with paragraph 2.3.2.9. An authority shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

232.17 Concessionary leases are granted to or received by an authority at below market terms, including leases for zero or nominal consideration. The portion of the lease that is payable, if any, along with any interest payments, is an exchange transaction and is accounted for in accordance with section 4.2 (Leases). An authority considers whether any difference between the consideration (lease payments) and the fair value of the lease on initial recognition see section 4.2 is non-exchange revenue that should be accounted for in accordance with this section of the Code and IPSAS 23.

232.18 Where an authority determines that the difference between the consideration (lease payments) and the fair value of the lease on initial recognition is non-exchange revenue, an authority recognises the difference as revenue, except if a present obligation exists, for example, where specific conditions imposed on the transferred asset (the right-of-use asset) by the recipient result in a present obligation. Where a present obligation exists, it is recognised as a liability. As the authority satisfies the present obligation, the liability is reduced and an equal amount of revenue is recognised.

¹ PWLB loans are not loans at below market value for this purpose.

...

Transition

23.22 The transitional provisions in section 4.2 are also applicable to the measurement of the right-of-use assets held by a lessee of concessionary leases of zero or nominal amount.

2.3.6 Changes since the 2018/19 Code

23.61 The 2018/19 Code has updated Section 2.3 (Government and Non-government Grants) has been updated for concessionary leases on the adoption of IFRS 16 in the Code.

2.10 FAIR VALUE MEASUREMENT

Scope

2.10.2.15 The measurement and disclosure requirements of this section of the Code do not apply to the following:

- a) share-based payment transactions within the scope of IFRS 2 *Share-based Payments*
- b) leasing transactions within the scope of section 4.2 (Lease and Lease Type Transactions) of the Code and ~~IAS 17~~ IFRS 16 *Leases*, and
- c) measurements that have some similarities to fair value but are not fair value, such as net realisable value in section 5.1 (Inventories) or value in use in section 4.7 (Impairment of Assets) of the Code.

CHAPTER THREE

Financial statements

3.4 PRESENTATION OF FINANCIAL STATEMENTS

Cash Flow Statement – direct method

...

3.4.2.69 The amounts to be included (where relevant) in lines a), b) and c) above are as follows:

Operating activities

- a) taxation
- b) grants
- c) housing rents (housing authorities only)
- d) sales of goods and rendering of services
- e) interest received
- f) other receipts from operating activities
- g) cash inflows generated from operating activities (sub-total)
- h) cash paid to and on behalf of employees
- i) housing benefit paid out (housing authorities only)
- j) national non-domestic rate payments to national pool (billing authorities in Scotland and Wales only)
- k) precepts paid (billing authorities only)
- l) payments to the Capital Receipts Pool (in England and Wales only)
- m) cash paid to suppliers of goods and services
- n) interest paid
- o) other payments for operating activities
- p) cash outflows generated from operating activities (sub-total)
- q) net cash flows from operating activities.

Investing activities

- a) purchase of property, plant and equipment, investment property and intangible assets

- b) purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)
- c) other payments for investing activities
- d) proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets
- e) proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)
- f) other receipts from investing activities
- g) net cash flows from investing activities.

Financing activities

- a) cash receipts of short- and long-term borrowing
- b) other receipts from financing activities
- c) cash payments for the reduction of the outstanding liability relating to **finance** leases and on-Balance-Sheet service concession arrangements (PFI) contracts
- d) repayments of short- and long-term borrowing
- e) other payments for financing activities
- f) net cash flows from financing activities.

Cash Flow Statement – indirect method

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3.4.2.73 The amounts to be included (where relevant) in lines b), c), e) and f) above are as follows:

Adjust net surplus or deficit on the provision of services for non-cash movements:

- a) depreciation
- b) impairment and downward valuations
- c) amortisation
- d) increase/decrease in impairment for bad debts
- e) increase/decrease in creditors
- f) increase/decrease in debtors
- g) increase/decrease in inventories (stock)
- h) movement in pension liability
- i) carrying amount of non-current assets and non-current assets held for sale, sold or derecognised
- j) other non-cash items charged to the net surplus or deficit on the provision of services.

Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities:

- a) proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)
- b) proceeds from the sale of property, plant and equipment, investment property and intangible assets
- c) any other items for which the cash effects are investing or financing cash flows.

Investing activities:

- a) purchase of property, plant and equipment, investment property and intangible assets
- b) purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)
- c) other payments for investing activities
- d) proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets
- e) proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)
- f) other receipts from investing activities
- g) net cash flows from investing activities.

Financing activities:

- a) cash receipts of short- and long-term borrowing
- b) other receipts from financing activities
- c) cash payments for the reduction of the outstanding liability relating to a ~~finance~~-lease and on-Balance-Sheet service concession arrangements (PFI) contracts
- d) repayments of short- and long-term borrowing
- e) other payments for financing activities
- f) net cash flows from financing activities.

CHAPTER FOUR

Non-current assets

4.1 PROPERTY, PLANT AND EQUIPMENT

4.1.1 Introduction

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4.1.14 Property, plant and equipment classified as finance leases under section 4.2 of the Code (also see ~~IAS-IFRS 16~~¹⁷) shall follow section 4.2 in terms of recognition; however, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed in this section. Similarly, property, plant and equipment acquired under service concession arrangement (PFI/PPP) schemes shall follow section 4.3 of the Code in terms of recognition, but subsequent measurement requirements for property, plant and equipment held under service concession arrangements including depreciation are prescribed in this section.

...

Initial measurement

4.1.27 The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with section 4.2 of the Code (also see ~~IAS-17~~^{IFRS 16}).

4.1.4 Disclosure Requirements

4.1.43 Having regard to paragraph 3.4.2.27 of the Presentation of Financial Statements section of the Code, which permits authorities not to provide a specific disclosure if information is not material, authorities shall disclose the following notes in relation to property, plant and equipment:

- 1) The financial statements shall disclose, for each class of property, plant and equipment:
 - a) the measurement bases used for determining the gross carrying amount
 - b) the depreciation methods used
 - c) the useful lives or the depreciation rates used
 - d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period, and
 - e) a reconciliation of the carrying amount at the beginning and end of the period

showing:

- i) additions
 - ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with section 4.9 of the Code and other disposals
 - iii) increases or decreases resulting from revaluations under section 4.1 of the Code and from impairment losses recognised or reversed in Other Comprehensive Income and Expenditure and taken to the Revaluation Reserve in accordance with section 4.7 of the Code
 - iv) impairment losses recognised in Surplus or Deficit on the Provision of Services in accordance with section 4.7 of the Code
 - v) impairment losses reversed in Surplus or Deficit on the Provision of Services in accordance with section 4.7 of the Code
 - vi) depreciation, and
 - vii) other changes.
- 2) The financial statements shall also disclose the amount of contractual commitments for the acquisition of property, plant and equipment.
 - 3) In accordance with section 3.3 of the Code, an authority discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:
 - a) residual values
 - b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment
 - c) useful lives, and
 - d) depreciation methods.
 - 4) If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:
 - a) the effective date of the revaluation
 - b) whether an in-house or external valuer was involved, and
 - c) the methods and significant assumptions applied in estimating the items' current values.
 - 5) The financial statements shall disclose a summary of capital expenditure during the reporting period, including assets acquired under ~~finance~~-leases, analysed for each category of fixed assets, together with the sources of finance and the Capital Financing Requirement.

4.4 INVESTMENT PROPERTY

4.4.1 Introduction

4.4.1.1 Authorities shall account for investment property in accordance with IAS 40 *Investment Property*, except where adaptations to fit the public sector are detailed in the Code. IPSAS 16 *Investment Property* is based on IAS 40, and provides additional guidance for public sector bodies. Recent changes to IAS 40 have yet to be reflected in IPSAS 16, and in these cases the Code requires authorities to follow IAS 40 rather than IPSAS 16.

Adaptation for the public sector context

4.4.1.2 IPSAS 16 includes a public sector interpretation of the definition of investment property. Under this definition, an investment property is one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property under IPSAS 16, and is accounted for as property, plant and equipment. The Code adopts this definition of investment property.

4.4.1.3 The Code requires investment property to be accounted for under the fair value model. The option under IAS 40 and IPSAS 16 to use the cost model is not permitted, except in the specific circumstances outlined at paragraph 4.4.2.13.

4.4.2 Accounting Requirements

~~4.4.2.1 This section of the Code applies to the measurement of investment property interests held under a lease and to investment property provided to a lessee under an operating lease. Other aspects of lease accounting are covered by IAS 17 *Leases* and section 4.2 of the Code. These include:~~

- ~~▪ classification of leases as finance leases or operating leases~~
- ~~▪ recognition of lease income from investment properties~~
- ~~▪ measurement in a lessor's financial statements of its net investment in a finance lease.~~

~~Property provided to a lessee under a finance lease is outside the scope of this section of the Code and shall be accounted for in accordance with section 4.2 of the Code and IAS 17.~~

Definitions

4.4.2.1 **Carrying amount** is the amount at which an asset is recognised in the Balance Sheet.

4.4.2.2 **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see section 2.10). The fair value of investment property held under a lease is the lease interest.

4.4.2.43 **Investment property** is property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both, rather than for:

- a) use in the production or supply of goods or services or for administrative purposes, or
- b) sale in the ordinary course of operations.

If earning rentals were an outcome of a regeneration policy, for example, the properties concerned would be accounted for as property, plant and equipment rather than investment property. Social housing is delivering a service and shall be accounted for as property, plant and equipment.

4.4.2.54 **Owner-occupied property** is property held (by the owner or by the lessee ~~under a finance lease as a right-of-use asset~~) for use in the delivery of services or production of goods or for administrative purposes.

Classification

~~4.4.2.6~~ ~~Property held by a lessee under an operating lease may be accounted for as an investment property if, and only if, the property would otherwise meet the definition of an investment property. This classification is available on a property-by-property basis. The lease shall be accounted for as if it were a finance lease.~~

4.4.2.75 **Owned** ~~Owner-occupied~~ property shall be accounted for as property, plant and equipment (see section 4.1 of the Code and IAS 16 *Property, Plant and Equipment*) and IFRS 16 applies to owner-occupied property held by a lessee as a right-of-use asset. Investment property that subsequently meets the criteria within section 4.9 of the Code to be classified as held for sale shall continue to be accounted for as investment property, but may be reported separately as investment property held for sale.

4.4.2.85 Where an authority leases property to a subsidiary, the property is accounted for as an investment property in the authority's accounts if it meets the definition in paragraph 4.4.2.4. The property is not accounted for as an investment property in the Group Accounts, because from the group perspective the property is owner-occupied.

Recognition and measurement

4.4.2.97 An owned ~~investment~~ property shall be recognised as an asset when, and only when:

- a) it is probable that the future economic benefits that are associated with the investment property will flow to the authority, and
- b) the cost or fair value of the investment property can be measured reliably.

4.4.2.8 An investment property held by a lessee as a right-of-use asset shall be recognised in accordance with IFRS 16.

4.4.2.99 An authority shall evaluate the costs of an investment property when they are incurred. The costs include acquisition costs and costs incurred subsequently to add to, replace part of or service an investment property, but do not include day-to-day repairs and

maintenance. Where part of an investment property is replaced, an authority shall recognise in the carrying value of the investment property the cost of the replacement; the carrying amount of those parts that are replaced is derecognised.

~~4.4.2.140~~ Investment property shall be measured initially at cost. The cost of an investment property includes its purchase price, transaction costs and directly attributable expenditure. Where an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition. ~~The initial cost of a lease interest classified as an investment property shall be as prescribed for a finance lease (see section 4.2 of the Code).~~ Where an investment property is acquired in exchange for a non-monetary asset, the cost of the investment property is its fair value at the time of the exchange, or, where this cannot be reliably determined, the carrying amount of the asset given up.

4.4.2.11 An investment property held by a lessee as a right-of-use asset shall be measured initially at its cost in accordance with IFRS 16.

~~4.4.2.112~~ After initial recognition, investment property shall be measured at fair value. The use of the cost model allowed under IAS 40 is not permitted, except where paragraph 4.4.2.1314 applies. A gain or loss arising from a change in the fair value of investment property shall be recognised in Surplus or Deficit on the Provision of Services for the period in which it arises. The fair value of investment property shall reflect market conditions at the end of the reporting period. An investment property under construction shall be measured at fair value once an authority is able to measure reliably the fair value of the investment property, and at cost before that date. Investment properties held at fair value are not depreciated.

4.4.2.13 When a lessee uses the fair value model to measure an investment property that is held as a right-of-use asset, it shall measure the right-of-use asset, and not the underlying property, at fair value.

~~4.4.2.1314~~ Exceptionally, there may be evidence when an authority first acquires an investment property (or the property first becomes an investment property following a change of use) that the fair value of the investment property is not reliably measurable on a continuing basis. In such cases, an authority shall account for that property using the cost model in IAS 16 and section 4.1 of the Code (ie the investment property is depreciated over its useful life). The residual value of the investment property shall be assumed to be zero.

Transfers

~~4.4.2.4415~~ IAS 40 details the accounting arrangements that apply where assets are reclassified as investment property or are reclassified from investment property. Where such reclassifications take place, authorities shall follow the accounting arrangements set out in paragraphs 57 to 65 of IAS 40.

Disposals

~~4.4.2.4516~~ An investment property shall be derecognised on disposal (by sale or by entering into a

finance lease) or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property shall be recognised in Surplus or Deficit on the Provision of Services (unless ~~IAS 17~~[IFRS 16](#) and section 4.2 of the Code requires otherwise on a sale and leaseback) in the period of the retirement or disposal.

[4.4.2.1617](#) Compensation from third parties for investment property that becomes impaired, lost or is given up is recognised in Surplus or Deficit on the Provision of Services when it becomes receivable.

4.4.3 Statutory Accounting Requirements

[4.4.3.1](#) Statute and proper practice restrict the use of capital receipts, and prescribe the charges that can be made to the General Fund (see part 2 of Appendix B for the legislative basis). To comply with these restrictions, the gain or loss on derecognition of an investment property shall be reversed out of the General Fund. The General Fund shall be debited (in the case of a gain) or credited (in the case of a loss) with an amount equal to the gain or loss on derecognition of the investment property (excluding any costs of disposal which are a proper charge to the General Fund). The double entries are a credit to the Capital Receipts Reserve or (in Scotland) a statutory capital fund of an amount equal to the disposal proceeds and a debit to the Capital Adjustment Account equal to the carrying amount of the investment property.

[4.4.3.2](#) These entries will be reflected in the Movement in Reserves Statement.

[4.4.3.3](#) Gains or losses on fair value debited or credited to Surplus or Deficit on the Provision of Services are not proper charges to the General Fund (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

[4.4.3.4](#) Minimum Revenue Provision (England, Northern Ireland and Wales) and the Statutory Repayment of Loans Fund Advances (Scotland) are proper charges to the General Fund, but do not appear in Surplus or Deficit on the Provision of Services. Such amounts shall be transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement. The amounts of Minimum Revenue Provision or the Statutory Repayment of Loans Fund Advances to be charged to the General Fund for the year are set out in the appropriate regulations and statutory guidance (see part 2 of Appendix B for the legislative basis).

4.4.4 Disclosure Requirements

[4.4.4.1](#) Disclosure of accounting policies in relation to investment property is required, where these accounting policies are significant to the authority's financial statements (see section 3.4 of the Code).

[4.4.4.2](#) Having regard to paragraph 3.4.2.27 of the Presentation of Financial Statements section of the Code, which permits authorities not to provide a specific disclosure if information is

not material, authorities shall disclose the following notes in relation to investment property:

~~1) whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property~~

21) the amounts recognised in the Comprehensive Income and Expenditure Statement for:

- a) rental income from investment property
- b) direct operating expenses (including repairs and maintenance) arising from investment property

where these amounts are not disclosed on the face of the Comprehensive Income and Expenditure Statement

32) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal

43) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements

54) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:

- a) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset
- b) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with section 4.9 of the Code and other disposals
- c) net gains or losses from fair value adjustments
- d) transfers to and from inventories and owner-occupied property, and
- e) other changes.

Investment property that meets the criteria to be classified as held for sale under IFRS 5 may be reported separately as investment property held for sale, usually within current assets. In addition, the disclosures required by section 4.9 of the Code are also required in respect of investment property that meets the criteria to be classified as held for sale.

4443 The disclosures above apply in addition to those applicable to leases (see section 4.2 of the Code). ~~In accordance with the Code's provisions on leases (see section 4.2 of the Code) the owner of an investment property shall provide lessors' disclosures about leases into which it has entered. An authority that holds an investment property under a finance or operating lease shall provide lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.~~

4.4.5 Statutory Disclosure Requirements

4451 There are no statutory disclosures required in relation to investment property.

4.4.6 Changes since the ~~2017~~2019/18-20 Code

44.6.1 There ~~have been no changes to the~~ Investment Property section of the Code ~~since the 2016/17 Code~~has been updated to reflect the consequential amendments as a result of the adoption of IFRS 16.

4.5 INTANGIBLE ASSETS

4.5.1 Introduction

45.13 This section of the Code does not cover financial assets (see chapter seven), intangible assets held for sale in the ordinary course of business (see chapter five), leases within the scope of ~~IAS-IFRS 16~~ and section 4.2 of the Code ~~(however, this section of the Code applies to leased intangible assets after initial recognition)~~, assets arising from employee benefits (see chapter six) or non-current assets classified as held for sale (see section 4.9 of the Code). Intangible heritage assets are accounted for in accordance with this section of the Code subject to the specific requirements of section 4.10 of the Code.

4.8 BORROWING COSTS

4.8.2 Accounting Requirements

4.8.2.4 Borrowing costs may include:

- interest expense calculated using the effective interest method, and
- ~~finance charges~~interest in respect of ~~finance leases~~liabilities recognised in accordance with IFRS 16 Leases.

CHAPTER SEVEN

Financial instruments

7.2 SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Simplified approach for trade receivables, contract assets and lease receivables

7.1.2.26 An authority shall measure the loss allowance at an amount equal to lifetime expected credit losses for:

- a) trade receivables or contract assets that result from transactions that are within the scope of IFRS 15, and that:
 - i) do not contain a significant financing component (or when the authority applies the practical expedient for contracts that are one year or less) in accordance with IFRS 15, or
 - ii) contain a significant financing component in accordance with IFRS 15, if the authority chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all such trade receivables or contract assets but may be applied separately to trade receivables and contract assets.
- b) lease receivables that result from transactions that are within the scope of section 4.2 and ~~IAS 17~~ [IFRS 16](#) *Leases*. If the authority chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses that accounting policy shall be applied to all lease receivables but may be applied separately to finance and operating lease receivables.

7.3 FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION REQUIREMENTS

Fair value

7.3.2.20 Disclosures of fair value are not required:

- a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables, or
- b) for a contract containing a discretionary participation feature (as described in IFRS 4 *Insurance Contracts*) if the fair value of that feature cannot be measured reliably.
- c) for lease liabilities.