CIPFA The Chartered Institute of Public Finance & Accountancy

report

Paper CL 07 11 18 (a)

Board	CIPFA/LASAAC
Venue	CIPFA, Mansell Street, London
Date	6 November 2018
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Subject	IFRS 16 Leases Analysis of Consultation Responses and Approach to Adoption in the Code

Purpose

To consider the approach to adoption in the Code of IFRS 16 Leases.

1 Introduction

1.1 CIPFA/LASAAC consulted on the adoption of IFRS 16 Leases from 22 May to 7 September 2018. In total there were 80 responses (listed at Appendix A) to the public consultation on the draft 2018/19 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) for IFRS 16. This is an excellent response rate and provides a substantially increased response rate for the normal annual consultations on the Code (but may have had an impact on the response rate to the second Code consultation (see CL 08 11-18).

1.2 The Secretariat followed the same publication approaches as in previous years including articles in Public Finance and Spreadsheet, writing to the Treasurers Societies and the CIPFA Finance Advisory Network Service subscribers, newsletters etc. The Secretariat also informed the relevant bodies as required under CIPFA/LASAAC's Terms of Reference.

1.3 The responses received are summarised in the remainder of this report with more detailed analysis in Appendix B, section by section, followed by the Secretariat's comments and suggestions. Issues of principle are considered in the main body of the report. The statistical analysis of all the responses and individual comments is included in Appendix B. Minor corrections or other minor issues are not included in this analysis but may be included in amendments to the Exposure Drafts of the Code.

1.4 Copies of the responses received will be made available to Board members electronically on request. The names of the confidential interested parties responding to the consultation will need to remain confidential. For the avoidance of doubt the body of the report does not refer to the individuals or entities.

2 Analysis of Consultation Responses

2.1 Overall respondents positively supported CIPFA/LASAAC's approach to the adoption of IFRS 16. Much like the messages in the early consultation, most respondents acknowledged the practical issues which arise on the adoption of this standard. This is as important a consequence of adoption as the technical issues which arise.

2.2 CIPFA/LASAAC members will be aware that it requested the assistance of its Sub Group to analyse and advise on the outcomes of the consultation process. The Chair of the Group also invited a small number of new members to attend the Sub Group following changes to CIPFA/LASAAC membership and to assist in the work of the group. This included Paul O'Brien from Audit Scotland, Deryck Evans from the Wales Audit Office and Chris Brain from CIPFA Property Services. Chris is a member of RICS and was able to provide some substantial advice on valuation issues and property issues generally. The comments of that group are included in this report and will assist CIPFA/LASAAC in its decision making processes.

3 Recognition Exemptions

Short-Term Lease Exemption

3.1 An overwhelming majority of respondents to the consultation (90%) supported CIPFA/LASAAC's proposal to mandate this recognition exemption. The supportive comments indicated that this will ensure consistency of reporting and reduce the decision making requirements, without negatively impacting on the quality of financial information provided to users of the financial statements.

3.2 One respondent from an audit firm disagreed indicating that this was best left to individual entities, noting that the firm had had some indication from clients that this could actually lead to additional work because of the need to identify different sub classes. Subsequent enquiries with this respondent indicated that this was based on conversations with their private sector clients. The weight of the other responses have not indicated that this is the case for local authorities. However, the Secretariat would highlight this as a point to note on this issue.

3.3 The Secretariat has also added some additional clarification on the application of this recognition exemption to the classes of assets under the Code (see Code Draft paragraph 4.2.2.30).

3.4 One authority noted that whilst it agreed with the proposed approach it:

'*…would support an approach that enabled authorities to override this exemption if adhering to it would result in a material mis-statement of the carrying value of 'right of use assets*.. .'

The Secretariat is of the view that this might mean that local authorities were able to ensure that the carrying value of the right-of-use asset is presented properly in the financial statements but would note that this could lead to more work for local authorities in making this decision. This approach would also mean that there would be a difference from the the anticipated approach in the Government's Financial Reporting Manual (the FReM), so on balance the Secretariat has not made the change but would seek CIPFA/LASAAC's views on this point.

3.5 There are a number of detailed commentaries on this issue included in Appendix B rows 1.4 to 1.9 and CIPFA/LASAAC is invited to note the Secretariat's response to them.

CIPFA/LASAAC is invited to agree the approach in the Code to short-term exemptions.

Low Value Lease Exemption

3.6 The proposals in Code consultation were supported by majority of respondents (ie 84 per cent of respondents) with only five per cent of respondents disagreeing. The Secretariat would note, however, that this was one of the areas of the consultation which received the most substantial commentary and also indicated that this may be a difficult area of application for local authorities.

3.7 A number of authorities considered that the Code should provide some guidance on the amount or a threshold or should even indicate that the amount should be determined by an authority's de minimis. A number of authorities responding to these issues indicated that the $5,000 mentioned in the Basis of Conclusions of IFRS 16 was too low.

3.8 The Secretariat understands these arguments but it is not of the view that such stipulations would represent a proper interpretation of IFRS 16 for local authorities for low value leases. The Sub Group concurred with this view. It was of the view that the issue is best dealt with in application guidance which can set out in detail the relationship between an authorities' de minimis and the low value leases as was stipulated in the Code consultation documents (see also Appendix B row 2.2).

3.9 A number of other detailed comments and the Secretariat's responses are included in Appendix B rows 2.4 to 2.6. These relate to the application of the principles, a recommendation that more detail should be included in the Code and that the Board should consider mandating this approach. Some drafting augmentations have been made to paragraph 4.2.2.31.

CIPFA/LASAAC is invited to agree the approach in the Code to the low value lease exemptions.

4 Identifying a Lease

4.1 The responses to this question in the Code consultation were also overwhelmingly supportive with 90 per cent of respondents agreeing to the proposed approach in the Code and only one respondent disagreeing. This issue also received substantial commentary from respondents. A number of respondents were of the view that the position was similar to the approach in IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease.* A number of respondents, however, raised the issue of the complexity of some decisions which will need to be made, particularly for those leases included within service contracts. One respondent indicated that it particularly agreed with the inclusion of service potential in the definition.

4.2 The consultation papers included a question which raised the issue of practical application issues relating to identifying the lease. Again there was substantial commentary on these issues which included:

- the problems of identifying contracts in external departments but particularly schools (where the volume of potential transactions is also an issue)
- resources relating to the collation and identification of information
- completeness and accessibility of information

- the impracticability for a large authority to identify portions of asset capacity
- the potential need to employ external contractors to assist
- the technical judgements which have to be made are now more complex.

4.3 The Secretariat would recognise that there is substantial application guidance included in IFRS 16 on this issue and indeed the IASB training materials on this definition of a lease flagged that this is an area where application guidance is focused. Although similar to the current tests for lease recognition, there are changes which focus on control. Two of the respondents to the consultation highlight some of the changes. None of these issues, however, require changes to the Code Draft but are issues which require consideration when CIPFA/LASAAC reflects on the practical impact of adoption.

CIPFA/LASAAC is invited to agree the approach in the Code on identifying the lease.

5 Initial Recognition and Measurement

General Comments

5.1 The majority of respondents agreed to the Code's approach to the adoption of the initial recognition and measurement requirements of the right-of-use asset and the lease liability. There were a number of enquiries relating to the application of the provisions and the Secretariat's responses can be seen in rows 5.3 to 5.8 of Appendix B but these issues can be dealt with in application guidance. The most significant responses related to IFRS 16's approach to restoration costs. The Secretariat would note that these provisions are more explicit in IFRS 16 but are not new to IFRS. Again the practical impact of adoption was underlined in the responses.

5.2 The Secretariat has made a minor clarification to the provisions relating to initial measurement and recognition at paragraph 4.2.2.45 but otherwise has made no substantial changes to the provisions in the Code Draft.

Interest Rate Implicit in the Lease/Incremental Borrowing Rate

5.3 The consultation requested comments on the discount rates used in IFRS 16. Most of the local authority respondents indicated that there would be substantial difficulties estimating the interest rate implicit in the lease as they did not consider that they would be able to identify this information. The Secretariat understands that similar issues are being identified in the private sector.

5.4 The Secretariat would raise specific concerns on this issue. If a reporting entity is not able to ascertain the information required to determine the interest rate implicit in the lease it is difficult to see how any entity can ensure that they have made appropriate procurement decisions ie to compare the options of leasing or purchasing an asset. So the Secretariat considers that CIPFA guidance should encourage practitioners to ensure that they first attempt to determine the interest rate implicit in the lease. A small number of authorities indicated that they could find the interest rate implicit in the lease.

5.5 The incremental borrowing rate was the subject of much debate both amongst respondents and also amongst Sub Group members. A substantial number of local authority respondents were of the view that the incremental borrowing rate should be an appropriate PWLB rate (often citing an annuity rate). A number of respondents (principally the firms) raised concerns about using the PWLB rate indicating it risks obscuring the key messages from the leasing transaction, or that an authority should be able to determine the incremental borrowing rate from third party information. Some respondents also indicated that CIPFA or CIPFA/LASAAC should set the rate.

5.6 The Secretariat is of the view that if the rate was to be set centrally it would be almost impossible to identify a rate that properly interpreted what this should be across 500+ authorities in the UK.

5.7 The sub group had a substantial debate on this issue with similar differing views being expressed – the impact of getting the rate wrong (ie this would mean that the right-of-use asset and lease liability would in all likelihood be overstated) was also discussed. Other members of the sub group indicated that as this rate was looking to reflect the rate at which the authority borrowed then the PWLB rate was the correct rate to use.

5.8 The sub group, however, agreed that this was an issue for application guidance and not the Code and therefore the Code Draft is left unchanged from the approach in the Exposure Draft. The Secretariat would concur with this approach.

CIPFA/LASAAC is invited to agree the approach in the Code for initial recognition and measurement of the right-of-use asset and the lease liability.

CIPFA/LASAAC is invited to agree the approach to the interest rate implicit in the lease and the incremental borrowing rate.

6 Subsequent Measurement

Subsequent Measurement of the Right-of-Use Asset

6.1 CIPFA/LASAAC was aware that the issue of the measurement of the right-of-use asset was a complex one and as a part of its response to the complexity it offered two choices in relation to the measurement of the right-of-use asset. Option 1 was a measurement approach where the cost model would be able to be used for plant and equipment and shorter life property leases (where materiality or undue cost and effort would be used to inform the measurement decision). Option 2 was to follow the cost model approach in the FReM which was intended to be a proxy for current value.

6.2 The responses to the consultation in the large part supported CIPFA/LASAAC's proposal to measure the right-of-use asset at current value with 61 per cent of respondents choosing option 1 (48 respondents) and only 19 per cent (15 respondents) choosing the cost model. The respondents choosing option 1 indicated that they considered that it provided the best measurement of the asset, with one respondent indicating that the longer the term of the right-of-use asset the more it would deviate from cost. A firm setting out another theme for the supportive respondents indicated:

'It would be unsupportable to have different valuation models for the same asset types based on whether they were controlled directly or controlled via lease…'

6.3 The Secretariat would also note that CIPFA/LASAAC has recognised that the cost model would also be a less effective measure of value where there are infrequent or no rent reviews which would lead to an update of the cost model. The Secretariat would note that the readiness assessment has indicated that local authority leases do include rent reviews but has not received substantial information on the periods between rent reviews though see CL 07 11-18 (b) Appendix A row 1.E1. There are indications that some leases are not subject to rent reviews.

6.4 Most respondents also appeared to agree with the premise (which also aligns with the FReM approach) that the cost model would be a useful proxy for current value for leases of plant and equipment and for short-term property leases. This would also apply the materiality approach to those measurements in the same way as the current proxy works in paragraph 4.1.2.32 of the Code. Therefore the Secretariat would recommend that for these leases the Code mandates that the cost model is used as a proxy for current value measurement. For more detail on the respondents comments in support of option 1 see Appendix B row 7A.1.

CIPFA/LASAAC is invited to agree with this approach as it maintains the principles in the Code to current value measurement, provides a reasonably accurate measurement of the right-of-use asset but does so in a way in which the costs of adoption do not outweigh the benefits.

6.5 The respondents to the consultation who disagreed with the approach mostly focussed on the cost and the reporting burden on adoption of the current value model. Another respondent indicated that this would ensure that the right-of-use asset maintained its relationship with the lease liability. A firm also indicated that CIPFA/LASAAC could use this opportunity to review the use of the cost model under IAS 16 *Property, Plant and Equipment*. For more detail on the respondents comments that preferred option 2 see rows 7A.2 to 7A.6 in Appendix B to this report.

CIPFA/LASAAC is invited to note these comments.

Approach to Subsequent Measurement of the Right-of-Use Asset

6.6 The approach outlined in the consultation papers was to maintain the useful information which CIPFA/LASAAC has ensured is already contained in local authority financial statements by means of the Code's approach to the measurement of finance lease assets ie that the provisions in section 4.1 of the Code for property, plant and equipment are used.

6.7 The move to the cost model for longer-term leases of property is not consistent with the overall approach to the measurement of property in the Code. CIPFA/LASAAC took some time (two years) to review the Code's measurement provisions for property, plant and equipment alongside HM Treasury on the adoption of IFRS 13 *Fair Value Measurement.* The move to the leasing standard does not add any new elements to that substantial debate. One or two members of the Sub Group did highlight the benefits of reducing the reporting burden for local authorities if the cost model was used for all leased assets. However, other members were clear that CIPFA/LASAAC in its consultation had clearly set out the two options and respondents whilst being able to consider both approaches had chosen option 1.

6.8 The final approach to the revaluation of right-of-use assets would need to be one where the benefits of this measurement approach do not outweigh the costs. Option 1 in measurement and reporting terms is essentially trying to maintain the benefits of the current position in terms of measurement and so the approach in the consultation documents was that at the point where the 'cost model' in IFRS 16 no longer provides an effective proxy for current value ie for longer-term leases or where there are no or infrequent points for rent reviews (where the right-of-use asset would be remeasured by means of the remeasurement of the lease liability) then a formal current valuation should be used. The consultation documents therefore proposed there needed to be a decision at what this point would be for long-term leases and gave the example of 25 years.

6.9 The consultation also sought views on whether a materiality based approach should be used or an approach based on undue cost or effort. Respondents to the consultation largely favoured a materiality based approach with 51 per cent of respondents in support. They largely disagreed with the undue cost or effort again because this would require judgement, with some respondents indicating that the undue cost or effort principle was removed from FRS 102. One respondent indicated that he didn't think that the approach was mutually exclusive. The Secretariat would agree and the options discussed below have all been considered from a technical basis but also from the impact of the reporting burden for local authorities.

6.10 The Secretariat has therefore built on the principles outlined in the consultation and has drafted an approach where the cost model is used as a proxy for current value for plant and equipment and for property leases of less than 30 years. The objective of the above changes is to ensure that the reporting burden for subsequent measurement of the right-of-use asset is no more than it would have been under IAS 17 whilst still maintaining the benefits of current value measurement. The Secretariat has used a more rules based approach than it would normally work to as it did not want to substantially add to the reporting burden for local authorities on the adoption of the standard.

6.11 The Secretariat has initially increased the lease term from the indicative number that was provided in the consultation papers – this is to ensure that the reporting burden is minimised and as much as possible to arrive at a solution which should not be substantially more work than the current measurement requirements in IAS 17. The Secretariat would note that some respondents requested that local authorities be able to decide on the length of the lease term because for the authority in questions their lease terms for finance leases were substantially longer at 50 years.

6.12 CIPFA/LASAAC will be aware that to address this issue the readiness assessment questionnaire requested information on the average lease-term length for local authorities' finance leases and the average lease term for these returns was 59 years. However, it is difficult to ascertain how statistically significant or accurate this figure is as it is based on some substantial variations with some lease terms being in the hundreds of years (with one at 900) and others being as low as five years.

6.13 The Sub Group considered this issue and recognised that the approach above had merits and agreed that it would present the approach outlined above to CIPFA/LASAAC. Other alternatives were also discussed and the Sub Group considered that it would be useful if CIPFA/LASAAC took the opportunity to consider all alternatives including potentially providing a range of lease terms.

6.14 The alternatives which would achieve a similar effect and would have the advantages of being more principles based eg the authority could decide at which point to measure the right-of-use asset at current value based on their own decisions on what best represents current value for the leases in question. This could be further developed ie to stipulate or recommend that the right-of-use asset should be measured at current value when:

- the lease term represents substantially all the economic life of the underlying asset, and/or
- substantially the authority controls the majority of the economic benefits and service potential inherent in the underlying asset.

Two further approaches and versions of paragraph 4.2.2.50 are therefore provided to CIPFA/LASAAC in the second Annex to this report so that it can consider the alternatives. It should be noted, however, that the principles based approaches based on materiality judgements are likely to increase the reporting burden for local authorities relating to this decision.

CIPFA/LASAAC is invited to consider the options above in relation to the approach to the subsequent measurement of the right-of-use asset where the underlying asset are items of property.

6.15 The Secretariat would note that the only way to measure the right-of-use asset for land would be to use the deprival concept ie measured using the lease payments/rental information. So as confirmed in the consultation papers it is recommended that as an interpretation leases of land are measured using the cost model.

CIPFA/LASAAC is invited to consider the approach to the subsequent measurement of right-of-use assets where the underlying assets are land.

6.16 The drafting of paragraph 4.2.2.50 also allows for local authorities to decide that if a right-of-use asset with a lease-term of less than 30 years would be better measured at current value then local authorities may choose the revaluation model. There is, however, (to ensure that this does not add to the reporting burden) no compulsion to do so.

CIPFA/LASAAC is invited to consider whether it agrees the addition of this option.

6.17 The Secretariat has discussed the measurement of the right-of-use asset with CIPFA RICS qualified colleagues who have indicated that currently as the classification of leases as finance leases largely means that local authorities control the economic benefits and service potential in the asset that the leased asset is measured as if it were an owned asset. As we are aiming for a similar measurement reporting impact to that under IAS 17 and to ensure that the provisions are clear the Secretariat has included the relevant commentary for the avoidance of doubt.

CIPFA/LASAAC is invited to consider this approach to the subsequent measurement of the current value of the right-of-use asset.

6.18 Transitional arrangements require that the carrying value of the leased asset for finance leases is carried forward on 1 April 2019. Therefore to maintain this valuable information and to be consistent with the objective of the proposed approach paragraph 4.2.2.50 sets out that the right-of-use asset shall continue to be measured at current value until derecognition.

CIPFA/LASAAC is invited to consider whether it agrees with this approach to subsequent measurement of the right-of-use asset if the lease was previously classified as a finance lease under the Code's adoption of IFRS 16.

Approach in the FReM to the Subsequent Measurement of the Right-of-Use Asset

6.19 It appears that the FReM will maintain the approach to the measurement of the right-of-use asset specified in the consultation papers. However, the Secretariat understands that reporting entities that followed the FReM had different considerations to local authorities as subsequent measurement under IAS 17 wasn't expressed as it was in the Code and therefore the cost model rather than a current value measurement could be used. The Secretariat would note that the responses to the Code consultation would not support the use of the cost model.

6.20 Perhaps most importantly, if the FReM follows the approach outlined in the consultation papers (ie that the use of the cost model is a proxy for current value) then this should not require consolidation adjustments for Whole of Government Accounts purposes (taking into account the approach outlined in the consultation papers).

6.21 Currently the FReM's use of the cost model as a proxy for some items of property, plant and equipment does not require separate classification for those items of property, plant and equipment where the proxy is used. The proxy measurement is still deemed to be a current value measurement. As the Code proposals are also for a current value measurement where both a proxy and actual current value measurements are used there are no differences in accounting policy. The FReM does require disclosure where the proxy is used and it may be useful to ensure that the Code also requires clear disclosure on the approach to measurement of the right-of-use asset.

6.22 The Secretariat would note, however, that a recent out of meeting paper by HM Treasury indicates that the FReM may move away from referring to the use of a proxy.

CIPFA/LASAAC is invited to consider the commentary above in relation to the approach in the FReM to the subsequent measurement of the right-of-use asset.

Subsequent Measurement of the Lease Liability

6.23 The majority of respondents agreed to the approach to the subsequent measurement of the lease liability. A number of respondents indicated that there would be more work required by accounts preparers on the adoption of the new requirements.

6.24 Some respondents requested confirmation of the treatment of any increases to the lease liability as a result of the remeasurement and particularly of the impact on the measurement of the right-of-use asset. This is not covered by IFRS 16 explicitly as this accounting treatment is the same accounting treatment as is required when subsequent expenditure is incurred on owned assets. The same transactions would also be recognised in relation to the impact on the statutory reporting requirements. Although not absolutely necessary as it is not included in standards the Secretariat has included this clarification in paragraph 4.2.2.50 (g) at the request of a member of the sub group.

6.25 A number of detailed application issues were raised by respondents – see rows 8.2, 8.6 to 8.8. CIPFA/LASAAC is invited to note the Secretariat's response to the issues raised which where appropriate can be dealt with in application guidance.

CIPFA/LASAAC is invited to agree the approach to the subsequent measurement of the lease liability.

7 Concessionary/Peppercorn Leases

7.1 The majority (62 per cent) of respondents agreed with the approach outlined for concessionary leases for lessees. However, many local authority respondents indicated that it might be difficult to establish the market rate to estimate the lease liability and the right-of-use asset. Therefore whilst theoretically this approach might have been suitable the Secretariat is concerned that in practical terms this approach appears unlikely to work for local authorities. Additionally it is not clear precisely what the future position on this issue in the IPSAS equivalent of IFRS 16 will be. The Secretariat therefore recommends that as this was an area where the FReM and the Code proposals diverged that the approach in FReM be followed in as far as this fits with the Code provisions and local government circumstances.

7.2 The overall approach in the FReM is akin to treating peppercorn leases in the same way as donated assets. The Code Draft has therefore been updated. All references to the accounting treatment for concessionary leases have been removed and the accounting treatment for donated assets applied. This would mean that the right-of-use asset is recognised on initial recognition at fair value. The Secretariat would highlight that there may be information issue relating to initial recognition of the right-of-use asset but measurement at fair value would allow the use of Depreciated Replacement Cost. The Secretariat would note that this is slightly different to the FReM which requires that the asset is recognised at current value in existing use or fair value. However, this approach would not accord with the initial measurement requirements for donated assets where fair value is used as cost information is not available.

7.3 The Secretariat would recommend that when the final pronouncement on leases is issued by IPSASB that CIPFA/LASAAC considers the accounting treatment for concessionary leases and whether this might provide an appropriate accounting approach for local authorities.

7.4 CIPFA/LASAAC is invited to note the other commentaries and the Secretariat's response in Appendix B see rows 9.1 to 9.8.

CIPFA/LASAAC is invited to consider the Secretariat's proposals for accounting for leases at a peppercorn or nominal consideration.

8 Approach to Lessor Accounting

8.1 With one exception most respondents commented on the use of the dual accounting model in IFRS 16. The responses to questions 10 and 11 should therefore be considered together. Both questions indicated that the majority of respondents favoured the use of the dual accounting model for lessor accounting. The respondents were generally content that this accounting approach did not give rise to any substantial issues for local authorities – the individual commentaries are listed in row 10.3 of Appendix B.

8.2 The Secretariat would also comment that there were no compelling arguments to change this accounting model so has not proposed any changes. The Secretariat would note that some responses appeared to indicate that they wanted to retain this model and commentary on the early consultation on leases indicated that it would not be useful to have to make substantial changes to the lease accounting models following the substantial changes introduced by the adoption of IFRS 16.

8.3 The Secretariat would highlight the comments and the detailed responses included in rows 10.1 to 11.3 of Appendix B.

CIPFA/LASAAC is invited to agree the overall approach to lessor accounting in the Code Draft.

9 Sale and Leaseback Accounting

9.1 The majority of respondents agreed with the approach to sale and leaseback accounting. There were a small number of technical questions relating to this issue see rows 12.2 to 12.3 in the Appendix B.

9.2 There is a possibility that the change in approach may increase the capital finance implications for local authorities and the Secretariat is researching this issue, albeit no substantial evidence was provided in the consultation responses.

CIPFA/LASAAC is invited to agree the approach to sale and leaseback accounting in the Code Draft.

10 Approach to Transition

Definition of a Lease on Transition

10.1 Although there was an error on the response sheet there is a majority of respondents in support of the approach to the definition of a lease on transition known as the 'grandfathering' approach ie the decisions on lease accounting made under IAS 17 and IFRIC 4 are maintained on transition.

10.2 One respondent (that provided a similar response to all questions on adaptation and interpretation) indicated that local authorities should be allowed to make their own choices in relation to this practical expedient on transition. The Secretariat would note that the Sub Group did not initially mandate this issue. This was adapted following the proposed approach in the FReM. The Secretariat would also note that it appears from the consultation responses that most local authorities would choose the grandfathering approach.

10.3 A number of respondents raised audit issues arising from this approach – see row 13.3 in Appendix B. The Secretariat would suggest that this is not an issue which would impact on the drafting of the Code as such but does have a practical impact on local authorities.

CIPFA/LASAAC is invited to agree the approach to the definition of a lease on transition.

Approach to Retrospective Transition

10.4 The majority of respondents agreed with the approach to retrospective transition ie the approach where preceding year information is not restated. This approach is the same as was followed for both IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. There were some other proposals from respondents but the Secretariat does not consider that these are necessary or appropriate adaptations of the Code (see rows 14.3 and 14.5). Application issues were also raised: see rows 14.4 and 14.6 to 14.7 in Appendix B.

CIPFA/LASAAC is invited to agree the approach to retrospective transition.

Approach to Measuring the Right-of-Use Asset on Transition

10.5 The majority of respondents agreed with the approach to measuring the right-of use asset on transition for leases that were previously operating leases.

10.6 There were a small number of additional commentaries in rows 15.2 to 15.3 and 15.5 of Appendix B. A confidential respondent also indicated that '*some examples suggest that using the modified retrospective approach (as opposed to the full retrospective approach) results in the Asset being a higher value than it would if the full retrospective approach were used.* The Secretariat would note that this is a possibility but does not consider that this outweighs the easing of the reporting burden on transition.

CIPFA/LASAAC is invited to agree the approach to measuring the right-of-use asset on transition.

Practical Expedients on Transition

10.7 The majority of respondents agreed with the approach to the practical expedients on transition. A small number of respondents indicated that this might lead to more work (see row 16.3) though this is not evidenced by commentaries from other respondents. This was not an area which the Sub Group recommended to be adapted but was decided on by CIPFA/LASAAC following the proposed approach in the FReM.

10.8 A small number of respondents also recommended that the use of hindsight be mandated but did not provide any specific rationale for this other than it would align with the FReM proposals. The Secretariat would note that it is not clear on the advantages or the necessity of mandating the use of hindsight and considers that there might be a possibility that this would increase the reporting burden on local authorities. The Secretariat would note that taking a different position to the FReM is unlikely to cause substantial reporting issues for Whole of Government Accounts.

10.9 The Secretariat has also made some drafting clarifications and introduced new paragraph 4.2.2.94 which separates out one of the mandated practical expedients.

CIPFA/LASAAC is invited to agree the approach to the practical expedients on transition.

11 Consequential Amendments to Service Concession Arrangements Measurement of the Liability

11.1 The Secretariat would note that this is was the one question where a substantial negative response was returned from respondents; 38 per cent (30 respondents) supported the proposal to measure the service concession arrangement (PFI/PPP Schemes) liability as a lease liability. The number of respondents disagreeing with the approach (and largely agreeing with the alternative included in the consultation papers ie to retain the current measurement provisions) was 35 per cent (28 respondents). This therefore is a very balanced position.

11.2 The respondents that disagreed could not largely see the benefit of moving to the IFRS 16 model and a number of respondents cited the costs of the move including the need to employ consultants and the need to update their complex cost models. Two members of the Sub Group who considered these models on the move to the current approach to accounting for service concession arrangements indicated that they did not consider this task onerous. Other members of the group did consider that there may be additional work on the issue. The Secretariat has included the substantial commentaries provided by respondents to the question on service concession arrangement as an Annex to Appendix B so the Board has the opportunity to appreciate the comments and their tone more fully.

11.3 The Secretariat would note that from the responses to the consultation it cannot see that there is substantial rationale for not moving to the IFRS 16 measurement of the liability as these liabilities are most akin to that form of transaction. However, the Secretariat would note that another respondent indicated that CIPFA/LASAAC should look to reviewing the other accounting issues in relation to service concession arrangements against the requirements of IFRS 16. The Secretariat would remind CIPFA/LASAAC that there are other issues in service concession arrangement accounting that are being considered as a part of the post-implementation review and would suggest therefore that a separate group be established with local authorities that have substantial PFI and PPP contracts including relevant experts in the field.

11.4 The Secretariat would note that at this juncture it has not yet changed the approach in the Code Draft to the measurement of the liability which as with the Exposure Draft requires measurement using the provisions in the Code for an IFRS 16 lease liability.

CIPFA/LASAAC is invited to consider the approach to the measurement of the service concession arrangement liability and the creation of a sub group to review accounting for service concession arrangements.

12 Effective Date

12.1 The Secretariat is of the view that CIPFA/LASAAC would find it useful to consider both the commentaries on the effective date and the question in the readiness assessment questionnaire included in the response sheet on the level of preparedness of local authorities for the adoption of the standard.

12.2 In many respects the responses to the consultation papers provide a positive message on the issue. Appendix B demonstrates that 65 per cent of respondents support the proposed effective date of 1 April 2019 with 23 per cent of respondents disagreeing. This is set against 50 per cent of respondents agreeing that they will be ready for implementation with 21 per cent neither agreeing or disagreeing and the 8 per cent disagreeing or strongly disagreeing that they would be ready to implement the standard. No respondents strongly agreed that they would be ready.

12.3 The responses in support of the effective date cited consistency with the private and the public sector.

12.4 It is notable that a number of respondents indicated that readiness for adoption relied on the issue of the Code and application guidance on the Code in sufficient time for local authorities to make their effective preparations. CIPFA/LASAAC members will remember that on the adoption of IFRSs 9 and 15 it issued its agreed provisions on the Code for those standards alongside the 2017/18 Code for adoption in the 2018/19 Code. CIPFA was able to issue separate application guidance on IFRS 9 to assist with those preparations but considered that separate early application guidance was not necessary for IFRS 15.

12.5 The consultation responses also clearly indicated that there were substantial challenges ahead for some authorities ie the practical consequences of the adoption of the standard.

12.6 Additional evidence has been provided in our evaluation of the impact assessment information which provides an indication of some of the work which will be required to adopt the standard:

- one council identified that due to the new IFRS 16 accounting treatment of indexation and other contract clauses all existing contracts would need to be manually reviewed and clauses analysed to determine the correct accounting treatment

- further work will be required, as lease and contract registers will not currently have captured the details of some of the arrangements (eg details of rent reviews or indexation) which are now required to be identified

- new or updated software for this task is not yet widely available and may involve a level of financial investment which some councils will not be able to make, particularly in the short term

- the information requirements for the new judgement thresholds and estimation processes to be made under the standard will be significant

- the impact on the capital finance arrangements will require additional assessment (potential issues arise on the impact on the Prudential Indicators and other issues such as the HRA as was raised in the consultation documents)

- some issues may have arisen in relation to the adoption of the reporting requirements under current IFRS which are currently not material but which might lead to a different assessment under IFRS 16, again increasing workload

- the particular impact that this might have on smaller local authorities ie this may be disproportionate to the size of the authority.

12.7 The readiness assessment questionnaire also provides some more indication at the level of preparedness of local authorities (see CL 07 11-18 (b)). This report mostly highlights the risks around the development of systems and processes in readiness for the new information requirements under the standard. Additionally information requirements in relation to schools was also raised under this assessment.

12.8 The evidence above points to some of the substantial risks on implementation – most if not all may be ameliorated by extra time to prepare for the adoption of such a substantial standard, where practical adoption issues have a larger impact than the technical financial reporting issues.

12.9 Arguments were put forward by some group members that there may also be risks to delaying implementation. For example, the momentum that is building up may be lost as local authorities divert attention to more pressing priorities. There is also the factor raised by the impact assessment work that the preparatory work for IFRS 16 has surfaced issues around completeness of lease disclosures in 2018/19 under existing standards particularly around compliance with IFRIC 4.

12.10 Taking into account all the risks cited above on balance it may be beneficial to delay implementation by a year, with the proviso that there will be no further extensions and implementation will take place on 1 April 2020. This also has the advantage of ensuring that accounts preparers have sufficient time to understand the impact of the standard and ensure their processes and systems are ready for the change and there may be benefits of considering any lessons learnt from private sector adoption.

12.11 Another important issue for CIPFA/LASAAC is the approach of the rest of the public sector the Secretariat would be grateful if CIPFA/LASAAC members treated the following details in confidence. Two out of meeting reports have been provided to FRAB Members focussing on the substantial issues relating to the FReM consultation. One of the most substantial issues is relating to the effective date of application. HM Treasury have:

- received and sought feedback from FRAB Board members (to an its first out-of-meeting paper)

- received feedback from the Resource Accounts Special Interest Group and selected departments (to specific questions posed about effective date and the feasibility of dual reporting), and

- entered into discussions with the ONS (to specific questions posed about the national accounts treatment in 2019/20 financial year and future years)

12.12 Although the issue has not yet been decided by FRAB. HM Treasury's most recent out of meeting paper has indicated that HM Treasury will put forward a recommendation in the November FRAB meeting that the effective date of IFRS 16 be deferred until 1 April 2020. The report indicates that this is primarily due to the budgetary issues relating to the national accounts treatment of leases but HM

Treasury also notes that it is sympathetic to concerns raised about resources issues. The Secretariat would also note that the paper also considers whether the FReM might allow early adoption but only in limited circumstances.

CIPFA/LASAAC is invited to consider the above issues in relation to the effective date of the standard and decide whether it wishes to consider deferral of the effective date for adoption of the standard in the Code.

13 Further Issues Question

13.1 The Secretariat would note that it has received a substantial response rate to the 'further issues' question normally included in the Code consultation papers. A number of respondents raised the capital finance issues some which have been largely resolved for English authorities but one of the issues relating to the Housing Revenue Account remain to be resolved (for a more detailed commentary see Appendix B rows 19.2 and 19.16). A large number of respondents also raised the potential legal impact of the accounting changes on schools where currently the statutory guidance on the scheme of financing requires local authorities to obtain permission from the Secretary of State to enter into finance leases. The Secretariat has raised this issue and has met with the Department for Education. This last issue was also raised in the readiness assessment questionnaire.

13.2 The Secretariat would note that the remaining issues raised including the low value lease recognition exemption, scope exclusions, discount rates and the transitional arrangements (note this list is by no means exhaustive) would need to be covered by application guidance. For more details on the matters raised please see items row 19.3 to 19.15 of Appendix B.

CIPFA/LASAAC is invited to note these comments and requests for guidance.

14 Recommendation

CIPFA/LASAAC is invited to consider the approach to adoption of IFRS 16 in the Code.

Appendix A

List of Respondents

Barnsley Metropolitan Borough Council	Birmingham City Council	Blaenau Gwent County Borough Council
Broadland District Council	Calderdale Metropolitan Borough Council	Carmarthenshire County Council
Cleveland Police and Crime Commissioner and Chief Constable	Daventry District Council	Essex County Council
Gateshead Council	Glasgow City Council	Gloucestershire County Council
Hampshire County Council	Inverclyde Council	Kent County Council
Leeds City Council	Lincolnshire County Council	London Borough of Enfield
London Borough of Lambeth	London Borough of Sutton	London Borough of Redbridge
London Borough of Sutton	London Borough of Tower Hamlets	Manchester City Council
Monmouthshire County Council	Newcastle City Council	North Ayrshire Council
North Lanarkshire Council	North Tyneside Council	Northumberland County Council
Oxfordshire County Council	Orbis*	Plymouth City Council
Royal Borough of Kingston Upon Thames	Sandwell Metropolitan Borough Council	Sheffield City Council / Sheffield City Region Combined Authority
Shetland Islands Council	South Gloucestershire Council	South Somerset District Council
Southend-on-Sea Borough Council	Stoke on Trent City Council	Suffolk Constabulary
Suffolk County Council	Surrey Police	Swindon Borough Council
Tamworth Borough Council	Thames Valley Police (Office of the PCC)	Torfaen County Borough Council
Wakefield Council	West Lindsey District Council	West Yorkshire Police
Westminster City Council	Wigan Council	Winchester City Council
Wrexham County Borough Council	Society of District Council Treasurers	Audit Scotland
Wales Audit Office	BDO LLP	Ernst & Young LLP
Grant Thornton UK LLP	KPMG LLP	ICAS
Arlingclose Limited	Link Asset Services Limited	Finance & Leasing Association (FLA)
Ichabod's Industries Ltd	13 Confidential Respondents	

East Sussex County Council, Orbis and East Sussex Fire Authority County Council)

SUMMARY OF CONSULTATION RESPONSES

Note – a group of interested parties best described as professional accounting firms that audit local authorities is abbreviated in this Appendix to ''firm'' or "firms"

IFRS 16 Leases

Recognition Exemptions

Question	Agree	Disagree	No Comment
1 Do you agree with CIPFA/LASAAC's proposal to mandate the recognition exemption for short-term assets? If not, why not? What alternatives do you suggest?	72 (90%)	1 (1%)	7 (9%)
2 Do you agree with CIPFA/LASAAC's approach to low value assets in the Exposure Draft? If not, why not? What alternatives do you suggest?	67 (84%)	4 (5%)	9 (11%)

	Issue	**Secretariat Response**
	Question 1– Mandate of the Short-term Lease Exemption	
1.1	The overwhelming majority of respondents supported the mandating of the short term lease exemption with those supportive comments indicating that this will ensure consistency of reporting, reduce the decision making requirements without negatively impacting on the quality of financial information provided to users.	**No further comments. No further changes to the Code Draft**.
1.2	A firm disagreed, commenting that this issue was best left to individual entities. The firm noted that they expect that public sector entities would normally take-up this option. '*However, we are aware that some accounts preparers consider that applying this exemption leads to the need to identify multiple classes of leases which adds to the complexity*	This issue has not been identified by other respondents though it would be concerning if this was a frequent issue for local authorities. The Secretariat will investigate this issue with this firm. The Secretariat has written to the firm seeking further explanation/evidence of such potential circumstances. **See comments in main report.**

	Issue	Secretariat Response
	of record keeping and in turn the cost.'	**CIPFA/LASAAC's views are sought on this issue.**
1.3	Two authorities proposed extending the definition of the short-term lease to a period of five years to reduce the reporting burden with one commenting: '*Leases that fall within this category are normally equipment and IT leases and are recognised at cost model and not revalued so the asset charges is almost equivalent to the lease repayments. Therefore the accounting entries will not add value in understanding the financial statements*.' On a similar theme another authority indicated that short-term should be defined by reference to the life of the underlying asset.	The Secretariat is not clear that such an interpretation of the Code for local authorities would a reasonable local government interpretation of the IFRS 16 definition of short-term leases. **No further changes to the Code Draft**.
1.4	A number of authorities requested clarification of what short-term meant in relation to options included in the contract.	This is covered by the standard in the definition of a lease term which is the non-cancellable period of the lease and includes options if the lessee is reasonably certain to exercise them. **No further changes to the Code Draft**.
1.5	A confidential respondent indicated that there would be a risk that leases with short terms would be sought with extension options. The respondent indicated that the wording in the definition of a lease of 'reasonably certain' would require judgement on behalf of the authority.	It is agreed that the adoption of IFRS 16 will require additional judgements by local authorities and this will be one area where this is the case. **No further changes to the Code Draft but refer as a practical consideration.**
1.6	Another authority commented that there was a risk that the short-term extension might lead to market distortions.	This is true but as it is likely that most authorities would adopt this practical expedient the distortion is likely to be a

	Issue	Secretariat Response
		risk with or without the mandate proposed by CIPFA/LASAAC. **No further changes to the Code Draft**.
1.7	One authority agreed but requested if schools could be exempted.	The authority did not provide any additional details to support this request. Appendix E of the Code would anticipate that these accounting policies would apply equally to schools. **Consider with the practical issues arising as a result of the adoption of IFRS 16.**
1.8	A firm indicated that this would also be consistent with the anticipated approach in the FReM.	This follows CIPFA/LASAAC's approach which is to follow the approach in the FReM provided local government circumstances permit. **No further changes to the Code Draft**.
1.9	Another authority commented '*Whilst we agree with the proposed recognition exemption for short term leases, we would support an approach that enabled authorities to override this exemption if adhering to it would result in a material mis-statement of the carrying value of 'right of use assets', and the associated lease liabilities, at the balance sheet date*.'	This might be a useful addition. However, it would mean a move away from the anticipated approach in the FReM. Also this may mean more work for the authority in ascertaining this position which is consistent with the requirements of the standard. **CIPFA/LASAAC's views are sought.**
	Question 2 – Approach to Low Value Leases	
2.1	The majority of authorities and respondents agreed with the approach in the Code not to mandate this practical expedient with many indicating that local authorities should be free to take their own decisions on this practical expedient. However there were numerous and varying responses in relation to how much	**See comments below.**

<table>
<tr><th></th><th>Issue</th><th>Secretariat Response</th></tr>
<tr><td></td><td>guidance the Code should include and what it should cover.</td><td></td></tr>
<tr><td>2.2</td><td>A number of authorities and other respondents considered that the Code should include a threshold with a number of suggestions including:
it being established at an authority's de minimis level
establishing a higher de minimis level than the indication provided by the IASB in its Basis of Conclusions
including the $5,000 or pound (£) equivalent as a guide in the Code
providing some other threshold or limit.
Note that a number of respondents also indicated that they considered the indicative limit to be too low.

A firm it its response considered that CIPFA/LASAAC might be encouraged to set a 'bright lines approach'. It considered this inadvisable because:
the quantification would need to be updated on a regular basis to reflect inflation,
use of a specific figure would not necessarily allow local authorities to take into account the nature of the leased asset as intended by IFRS 16, and
such an approach is contrary to the proposals in the FReM.</td><td>It would not be possible to set a threshold for local authorities which would provide an appropriate interpretation of IFRS 16. No substantial feedback from the impact assessment has been received on this issue that would enable CIPFA to define such a threshold.

Any threshold or de minimis set is at a risk of materially misstating the 'low value' lease position for large numbers of authorities. It is notable, however, that IFRS 16 does state that different lessees are expected to reach the same conclusions about whether a particular underlying asset is of low value so although judgement is required these judgements are likely to be similar across authorities.

CIPFA/LASAAC has already considered the issues raised by the firm and the Code normally avoids setting such thresholds.

(see also the response to the issues raised in row 2.3 below)

CIPFA/LASAAC Members are invited to consider whether it wishes to refer to the Basis of Conclusions in IFRS 16 in the Code.</td></tr>
<tr><td>2.3</td><td>A significant number of authorities considered that the 'low value' leases</td><td>IFRS 16 sets out that:</td></tr>
</table>

	Issue	Secretariat Response
	should be covered by materiality with a number of local authorities citing the use of their de minimis limits for capitalisation. A number of authorities included the following typical comment: '*Local authorities should be free to set their own definition of low value, possibly in line with their accounting policy on capitalisation'*. Another authority commented: '*Aligning the definition of a 'low value' lease with an authority's capitalisation de-minimis limit would ensure consistency in balance sheet treatment…'*	'*Leases of low-value assets qualify … regardless of whether those leases are material to the lessee*.' Clearly then there is a difference between the approach to materiality and the definition of low value leases. However, the ITC did set out the relationship of low value leases and materiality which stated: '*It would subsequently be a decision for the authority on how it applied materiality and any de minimis to right-of-use asset recognition. However, this decision should be no different to other de minimis decisions made by local authorities*.' **The Secretariat considers that the approach provided above can be included as relevant commentary in application guidance on IFRS 16.** **No further changes to the Code Draft**.
2.4	A number of authorities requested more guidance on the application of the Code and IFRS 16's requirements including: ▪ bulk leases of low value items ▪ what equipment should be ignored ▪ specifying types or the nature of assets that will fall into this category, and confirmation that there will be no requirement to consider the materiality of low value assets in aggregate.	IFRS 16 is clear that the definition of low value leases is absolute. For example, a bulk lease of laptops could be considered as low value – particularly as personal computers are given as an example in the standard. However, local authorities would need to be careful with their de minimis decisions which should consider aggregate materiality. Application guidance in the standard sets out some of the types which are considered to be low value. CIPFA will provide application guidance on this issue and will consider the evidence of the impact assessment to support this. **No further changes to the Code Draft**.

	Issue	Secretariat Response
2.5	An audit firm indicated that it disagreed with the approach in the Code as: *'It also does not make reference to assets that may be of low value, but are only used or used to maximum effect by being part of a network e.g. photocopiers can be used off-line but are more usually used on-line; laptops could have a similar position.'*	CIPFA/LASAAC and its sub group did not include this detail as it aimed to cover the most substantial issues that relate to local authorities when deciding on low value leases. As low value leases was an issue which was subject of substantial debate the Code Draft now includes more detail of the application guidance from IFRS 16. **CIPFA/LASAAC is invited to consider this approach.**
2.6	An audit body commented: *'We consider that the low value asset leases exemption should be mandated in a similar way to short term assets. This would encourage consistency across the sector as well as be a practical expedient - it then being one less decision for local government bodies to have to make.'*	The Secretariat can see the advantages for the reporting burden for local authorities and particularly as the standard comments that it anticipates that similar decisions on low value leases should be taken by entities. However, as this has been a subject of much comment then the Secretariat considers that on balance this choice should be left for the authority. **CIPFA/LASAAC is invited to consider this comment.**

Identifying a Lease

Question		Agree	Disagree	No Comment
3	Do you agree with the approach in the Exposure Draft to identifying a lease? If not, why not? What alternatives do you suggest?	72 (90%)	1 (1%)	7 (9%)
4	Are there any practical issues that arise under IFRS 16 in identifying a lease? If so what are they?			

	Issue	Secretariat Response
	Question 3– Approach to Identifying a Lease	
3.1	The vast majority of respondents agreed with CIPFA/LASAAC's approach, with a number noting that the approach to identifying the lease was similar or consistent with current practice under IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease.*	The Secretariat would concur that the provisions in IFRS 16 are similar to those of current standards and interpretations, though there is perhaps more focus on control of the identified asset. **No further changes to the Code Draft**.
3.2	A number of authorities (whilst recognising the similarities) commented that there would be difficulties in more complex cases where it might be difficult to separate lease contracts from service contracts and where judgement would be required. One confidential respondent indicated that there would be 'huge practical considerations' and another referred to the difficulties of obtaining the information needed to take the relevant decisions.	The Secretariat concurs that there will be judgement required by local authority accounts preparers and more complex contracts will require due consideration by local authorities. **No further changes to the Code Draft but referral of practical considerations.**
3.3	A number of authorities and respondents recognising the difficulties requested that examples be included to assist authorities to make the judgements.	CIPFA will provide application guidance including examples of the judgements that need to be made. **No further changes to the Code Draft**.
3.4	An audit body commented: '*We agree with the proposed approach to identifying a lease. In particular, we consider it important that the Code refers to the service potential aspects of leases.'*	**No further comment. No further changes to the Code Draft**.
3.5	A number of authorities referred to some of the practical difficulties in taking the judgements for example how to decide:	The application guidance in the Standard covers all of these issues, for example, by indicating if the customer cannot readily determine whether the supplier has a substantive substitution right, the

	Issue	Secretariat Response
	▪ whether a supplier benefits economically from any substitution ▪ substantive rights ▪ substantially all economic benefit (relating to the decision on the right to control the use of the asset). with an authority enquiring in relation to the last bullet whether bright lines would be needed to determine this.	customer is required to presume that any substitution right is not substantive. In relation to the decision regarding 'substantially all the economic benefit' this again will be a judgement for the authority though some commentators have referred to figures of 75%. This will be an issue which is best addressed in application guidance. **No further changes to the Code Draft**.
3.6	An authority noted that if the practical expedient of treating the whole of the contract as a lease were used this could have substantial implications for capital financing.	**The Secretariat concurs and will highlight this issue in application guidance issued by CIPFA.** **No further changes to the Code Draft**.
	Question 4 – Practical Issues in Identifying a Lease	
4.1	A substantial number of authorities cited the difficulties they envisaged with identifying contracts that were previously operating leases (and particularly those which might have been parts of service contracts) in external departments and directorates but special emphasis was placed on schools with some respondents indicating that this was even more difficult with voluntary aided schools. A number of authorities indicated that they were considering both data collection issues and raising awareness across the authority for issues such as block bookings for residential care and issues such as renting portakabins. A number of authorities doubted their ability to identify all relevant information related to schools.	
4.2	A substantial number of respondents cited resource issues relating to the identification and collation of information, assessment of the information and processing of information to make the relevant judgements and tests and on occasion gaining information from third parties. One authority indicated this resource issue was related to the number of contracts that would need to be assessed.	
4.3	A number of respondents discussed the completeness or accessibility of information (again this could be linked to schools).	

	Issue	Secretariat Response
4.4	A firm and some authorities indicated that the issues were similar to those they already faced in relation to IFRIC 4 decisions, with some noting that these were already difficult issues.	
4.5	A large authority noted the identification of portions of assets as physically distinct was '*completely impracticable for an authority of our size*'.	
4.6	One authority commented that '*Most large principal LG Bodies will have to engage specialist support as implementing IFRS 16 transcends not just Finance Departments, but also Legal, Property, Fleet and Education (Schools). The cost of doing so will be prohibitive and unwelcome at a time when most LG Bodies are struggling to set balanced budgets.'* Another authority commented '*We would support a new specific allocation from New Burdens funding to compensate the authority for these additional costs if the proposed changes are implemented*.'	
4.7	A number of authorities noted the difficulties of separating information in service contracts with one citing outsourcing contracts.	
4.8	A firm commented: '*One of the main changes from IFRIC 4 is the relevance of pricing when evaluating whether a contract to supply goods or services contains a lease. Under IFRIC 4, such contracts do not contain leases if the unit price paid by the customer is either fixed or at fair value at the time of delivery. IFRS 16 does not include this 'pricing exemption'. As a result, some contracts that do not contain a lease today will do so under IFRS 16, and vice versa*. '	
4.9	A second firm commented on the difficulty of evaluating whether an authority has the right to obtain substantially all of the economic benefits throughout the period of use in situations where a contract may provide for a party, or parties, other than the authority to have the right to more than a minor amount of the economic benefits from use of the same asset. The same firm commented: '*Differentiating a lessee from a customer in a typical supply or service contract by identifying who has the right to direct the use of the identified asset throughout the period of use is another area of potential practical difficulty. The new standard effectively requires a three-fold classification of decision-making rights into how and for what purpose decisions, operating decisions and protective rights. …Given the complexity of many local government contracts we believe that this will be a significant area of practical difficulty*.'	
4.1-4.9 r	**CIPFA/LASAAC is invited to note these issues.**	

Initial Recognition and Measurement

Question		Agree	Disagree	No Comment
5	Do you agree with the approach in the Exposure Draft to the initial measurement of the right-of-use asset and the lease liability? If not, why not? What alternatives do you suggest?	68 (85%)	3 (4%)	9 (11%)
6	Do you have any commentary on the approach to determining the interest rate implicit in the lease or the authority's incremental borrowing rate?			

	Issue	**Secretariat Response**
	Question 5– Approach to Initial Recognition and Measurement	
5.1	A substantial majority of the respondents to the consultation indicated that they were content with the approach in the Code as drafted with a number considering that this was consistent with the approach for finance leases.	**No further comment.**
5.2	A significant number of respondents indicated that they considered that there would be significant problems identifying and measuring the cost of restoration etc on initial recognition with a number of respondents indicating that they considered this to be a change. A number of respondents considered that these costs cannot be reliably measured at initial recognition. One authority queried why these costs had to be capitalised as there were no benefits to the authority.	The Secretariat would note that the inclusion of restoration costs is not new under IFRS 16 but would agree that it is more explicitly identified under the standard. The ability to measure such costs should be considered under the normal measurement approaches under the Code's adoption of IFRS. It is accepted though that this will be an additional practical issue for local authorities. Note also that these costs are treated very similarly to those restoration and dismantling costs required to be recognised under IAS 16 *Property, Plant and Equipment*. Costs arising only as a consequence of use are not a part of initial recognition. **No further changes to the Code Draft.**

	Issue	Secretariat Response
5.3	A number of respondents emphasised the costs of the application of the requirements under the standard including the judgments and information required and the resources needed to make the relevant assessments.	**To be considered when assessing the practical impact of adopting the standard.**
5.4	Two authorities considered that assessing the lease-term would be: '*difficult to determine, at the outset of a lease, whether an option to terminate early, to extend or to purchase will be exercised, even if past practice suggests that lease options will be exercised'*.	The Secretariat is of the view that the standard is clearer on this issue but agrees that this will be an area where judgement will need to be exercised. **No further changes to the Code Draft**.
5.5	One authority sought help on what 'any initial direct costs' would be.	These costs are incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained. They include costs for negotiating and securing the lease. This issue will be covered in application guidance. **No further changes to the Code Draft**.
5.6	The same authority queried: '"*any lease payments made at or before the commencement date". Does this mean physical payments actually made at the Reporting date (i.e. cash) or does it include accrued lease expenditure recognised by the lessee at the Reporting Date*?'	These are costs which would be recognised at the commencement of the lease and should be accrued if they relate to bringing the asset into use. **No further changes to the Code Draft**.
5.7	An authority considered the issues arising as a result of variable lease payments citing charges relating to photocopier use.	These are excluded from the measurement of the lease liability. **No further changes to the Code Draft**.

	Issue	**Secretariat Response**
5.8	Respondents also mentioned the issue of discount rates and the treatment of concessionary leases.	**These are discussed in questions 6 and 9 below.**
	Question 6 – Interest Rate Implicit in a Lease and the Incremental Borrowing Rate	
6.1	A substantial majority of respondents to the consultation indicated that there would be difficulties for local authorities in estimating the interest rate implicit in the lease with most commenting it would be difficult to gain the relevant information.	
6.2	All but a small number of local authorities indicated that they considered that local authorities would need to use a PWLB rate (with a number citing an annuity rate) as a proxy for the incremental borrowing rate. This because most borrowing by local authorities is most commonly with the PWLB and a number of respondents noted that they would use a relevant PWLB rate for any option appraisal in procurement decisions. A significant number of respondents including an audit body commented or indicated that they considered that it would be useful if the Code specified the use of the PWLB rate as a proxy to avoid interpretation issues and promote consistency. Some respondents also indicated that this would also reduce the reporting burden in cost terms. A respondent commented they already used the PWLB rate for their incremental borrowing rate under IAS 17. A number of respondents also cited that PWLB provided historical information.	
6.3	A small number of respondents indicated that CIPFA should set the rate.	
6.4	A small number of respondents indicated that they could find the interest rate implicit in the lease. Some respondents indicated they would continue with their current procedures to identify this rate or the incremental borrowing rate. Interestingly a comment from the representative body indicated: '*No. This appears to be consistent with current practice for finance leases*.'	
6.5	A firm commented: '*We are aware that there is some debate as to whether PWLB would be an appropriate basis for the incremental borrowing rate because it is an unsecured rate whereas the definition in IFRS 16 specifically refers to borrowings with a similar security…* *'Taking the conclusion of this example, it would appear permissible in some circumstances to use a PWLB rate without adjustment to reflect security if there*	

	Issue	Secretariat Response
	is evidence that the Council would arrange its financing through PWLB in practice and if a secured rate would be higher than an unsecured rate.' *'Another matter of concern relating to a PWLB rate may be that PWLB is not a market rate and therefore maybe artificially low compared with the rate implicit in the lease. This would result in a lease liability that is in turn potentially overstated.'* *'Where a local authority has a history of borrowing solely from PWLB and there is evidence that this is how it would arrange its financing in practice, we can see a rational for using PWLB as a starting point. However, this does potentially lead to a practical issue in that a higher liability will be matched by a higher right of use asset. This approach will therefore more likely result in an impairment of the right of use asset immediately after initial recognition which conceptually we consider to be wrong.'* *'Regardless of whether the PWLB rate or a commercial bank rate is the appropriate starting point we would also expect local authorities to make some relevant adjustments, for example to reflect the lease term. We consider it would be inappropriate to take one PWLB rate and apply it to all leases.'*	
6.6	Another firm commented: '…*Using the PWLB borrowing rate risks obscuring useful information about how well the public sector is using public money. The incremental borrowing rate and the interest rate implicit in the lease are more meaningful in providing information about the finance that these bodies are actually obtaining.* *It may be appropriate for a lessee to refer to the rate it would pay on an intra-governmental/PWLB loan to purchase the type of asset being leased as a starting point only when determining its incremental borrowing rate for a lease. If such a rate were used, local adjustments would still, however, in our view be required to take account of factors specific to the asset being leased such as the lease term, the underlying nature of the asset and expectations of any residual value. Therefore, authorities should be referring to IFRS 16.BC162*.'	
6.7	A further firm commented: *'We believe that use of the PWLB rate will only be appropriate where the Treasury is providing an explicit guarantee.* *We believe that local authorities should, in practice, be able to determine the rate of borrowing that would be incurred on lending from a third party to acquire the asset and that this is the rate that should be used where the implicit rate cannot be determined. We recognise that this view may be more appropriately expressed in guidance than the Code itself and that challenging the use of the PWLB rate will be a matter for auditors*.'	

	Issue	Secretariat Response
	Secretariat response: Like some of the respondents to the consultation it is hoped that more authorities will be able to identify the incremental borrowing rate as it would need to understand what the interest rate implicit in the lease is to make an effective decision between procurement and leasing the relevant asset. The Secretariat is aware of one authority that has a system which assists it with the identification of the relevant implicit interest rate. The Secretariat is of the view that it would not be appropriate to set an incremental borrowing rate for the 500 plus authorities across the UK as this would in all likelihood lead to a substantial misstatement of the lease liabilities and 'right-of-use' assets of most authorities. The Secretariat is of the view that the issue of the use of the incremental borrowing rate and the applicability of the use or otherwise of the PWLB rate should be covered in application guidance to the Code. This application would also include additional commentary provided by the IASB in its Basis of Conclusions which CIPFA/LASAAC included in the ITC. **No further changes to the Code Draft beyond the recognition that local authority cannot secure borrowing on its assets. CIPFA/LASAAC's views are sought on this issue.**	

Subsequent Measurement

Question		Option 1	Option 2	No Comment
7A	Which approach to the subsequent measurement of the right-of-use asset summarised in paragraph 106 do you consider best reflects local government's measurement of the right-of-use asset ie: ▪ option 1 **-** current value measurement with materiality based practical expedients or ▪ option 2 - HM Treasury proposal as a practical expedient, to adopt the IFRS 16 cost model for lessees as a proxy for the revaluation model? Please set out the technical financial reporting and the practical issues relating to your response.	49 (61%)	15 (19%)	16 (20%)

		Materiality Based Approach	Undue Cost or Effort	No Comment
7B	If you consider option 1 to be a viable option, which approach do you prefer ie the materiality based approach to current value measurement (see paragraphs 98 to 99) or the approach which relies on information which is available without undue cost or effort (see paragraph 100)? Please provide the reasoning for your response.	41 (51%)	4 (5%)	35 (44%)
		Agree	Disagree	No Comment
8	Do you agree with CIPFA/LASAAC's approach to the subsequent measurement of the lease liability? If not, why not? What alternatives do you suggest?	61 (76%)	6 (8%)	13 (16%)

	Issue **Secretariat Response**
	Question 7a – Subsequent Measurement Option 1 Current Value or Option 2 Cost Model
7.a1	A significant majority of respondents supported Option 1 ie to measure the right-of-use asset at current value as this is consistent with the Code's approach to the measurement of property, plant and equipment and provides the most useful information for the users of local authority financial statements. One authority commented: '*We would also point out that the longer a lease term, the more likely it is that the current value will deviate from the cost, particularly for finance leases of property which often have an up-front premium. To carry a property leased in for 125 years at the depreciated cost of its initial premium does not seem to us to be justifiable. However we support the use of the cost approach for shorter property leases and for all plant and equipment, the exceptions, being rooted in accounting principles*. Another authority commented: '*From a technical point of view this will ensure that longer-term leased assets are valued the same as owned assets. From a practical point of view, longer-term leases will most likely currently be finance leases and so the valuation will be*

	Issue **Secretariat Response**
	unchanged; for shorter-terms, it saves the need to calculate current value which is a less useful measure.' A firm commented: '*It would be unsupportable to have different valuation models for the same asset types based on whether they were controlled directly or controlled via lease? For building assets, the difference in valuation would be material and without justification*.' An audit body commented: '*We consider that option 1 best reflects local government's measurement of right-of-use assets. It is important that there is consistency in the measurement basis adopted for leased assets compared to other non-current assets and option 1 provides this*.' A second audit body commented: '*Option 1 is consistent with the normal approach that assets should be measured at current value as this provides users with more meaningful information*.'
7.a1r	**Secretariat response:** The arguments generally posed were those similar to the arguments of CIPFA/LASAAC in its ITC and the Secretariat would agree with them. The move to the cost model for longer-term leases of property is not consistent with the overall approach to the measurement of property in the Code. CIPFA/LASAAC took some time to review the Code's measurement provisions for property, plant and equipment alongside HM Treasury on the adoption of IFRS 13 *Fair Value Measurement*. However, the final approach to the revaluation of right-of-use assets would need to be one where the benefits of this measurement approach do not outweigh the costs. The Secretariat would concur that the cost model would not appear to provide a reasonably accurate estimate of the current value measurement of the right-of-use asset for substantially longer leases and/or those leases where there are either no rent reviews based on indices and/or there is a long period between rent reviews.
7.a2	A number of respondents that supported option 2 indicated that this would be easier and less costly to implement with one authority recognising that this would be '*a step back*' from the current accounting arrangements [for finance leases]. Another authority stressed the information requirements and focussed on the issue raised by the ITC in relation to the difficulty of establishing a current value for leases of land. A further authority referred to the costs of adopting the revaluation model in relation to the technical accounting requirements.

	Issue **Secretariat Response**
	An authority commented: '*The IFRS 16 approach reflects the initial contractual obligation, variations to it and the unwinding of that obligation throughout the term of the lease. Using the cost model therefore means the asset value and the liability value will remain linked and related to the contractual obligation*.'
7.a2r	**Secretariat Response:** The Secretariat would concur that there would be a greater cost to any option which required valuation if CIPFA/LASAAC were to decide to maintain its position on Option 1. However, the Secretariat would suggest that the revaluation model is adopted in a way in which the costs would not be any greater than the approach under IAS 17.
7.a3	A firm commented: *'We consider that the adoption of IFRS 16 with the recognition and subsequent measurement of right-of-use assets provides an opportunity for CIPFA to revisit its decision to prohibit the cost approach to the application of IAS 16.'* *'The cost approach should not be considered as a proxy for revaluation as it is a valid approach in itself and is unlikely to be representative of fair value.'* The same firm commented: *'We agree in principal that it is appropriate for CIPFA to mandate a valuation methodology to ensure consistency across local government. … The outcome of the FREM consultation should be considered before finalising a view.'* The firm also provide some commentary on the IASB's rationale for including the cost model.
7.a3r	**Secretariat response** As noted above CIPFA/LASAAC spent some considerable time reassuring itself that a current value model best reflected the use of property, plant and equipment in the financial statements (provided that the costs of the model outweigh the benefits), the introduction of IFRS 16 does not introduce any new issues to that decision. The CIPFA/LASAAC Secretariat has continued to liaise with HM Treasury and it is apparent that the Treasury will retain the mandating of the cost model as a proxy for the measurement of the right-of-use asset. It should be noted that the ability the use of the cost model as a proxy is still using a revaluation model at current value.

	Issue **Secretariat Response**
	It is noted that the FReM's description of current use of the proxy for current value measurement doesn't require separate classification of the property, plant and equipment in question but does require disclosure where the proxy has been used. The same approach could be used for WGA and therefore consolidation adjustments would not be required.
7.a4	An authority commented: '*Unless the authority as lessee would gain from any revaluation gains or be entitled to lower lease payments if the value of the asset were to reduce, it would not represent a true and fair view of the authority's assets to include an asset at valuation when we do not have sufficient control of the asset to be able to benefit from that gain (i.e. the Council couldn't realise the valuation gain by selling the asset as it is not the Council's to sell).*' Another authority commented: '*Option 1 could reflect asset valuation movements that would never materialise, unlike an owned asset where the value could materialise at the point of sale. How would any notional gain or loss be released on disposal of the leased asset?*' *'If Option 1 was chosen, would there need to be an evaluation of the component elements of the revaluation? Some of the revaluation movement could impact on the lease liability (effectively the IFRS16 option elements, for example if part of the revaluation movement was caused by a change in the lease term) and some would relate to the current value of the asset but have no impact on the liability. Therefore an element of the revaluation credit/debit would go to the liability and the remaining balance would go to a Revaluation Reserve or a charge to the CIES.'*
7.a.4r	**Secretariat response:** The Secretariat would agree in relation to the views relating to portions or elements of control and the approach in the consultation paper indicated that CIPFA/LASAAC was only anticipating mandating the current value measurement requirements for longer-term leases ie the proposals are for long-term leases where the authority would control substantially all the economic benefits inherent in the asset. In terms of the revaluation gains these would be treated in the same way as revaluation movements under assets recognised as finance leases and measured under the revaluation model at current value.
7.a5	An authority commented on option 1: '*There would also be a requirement (by the valuer) to provide CAD drawings of leased properties and therefore there would need to be a negotiation between the*

	Issue **Secretariat Response**
	landlord and the public body to determine who would provide these and who would bear the liability of the cost for the production of the drawings.' '*A third option would be a standardised formula / matrix produced and updated by CIPFA whereby lessees could populate with details of rental values, floor area, condition, post code etc in order to produce a desktop valuation internally*.'
7.a5r	**Secretariat response**: The Secretariat would note that the design issue cited would exist under the current provisions for the revaluation of finance leases. The 'third option' is unlikely to give a better current value than the use of professional valuers.
7.a6	An accounting institute that supported option 1 said: *'The offer of an option for low value / short life non-property assets to use depreciated historical cost risks bodies exercising aggressive accounting policies. We suggest that the Code should be clearer on the principle driving "low value". As an example, it could currently be interpreted as a collection of small items which add up to a material sum (paragraph 96) although paragraph 65 onwards suggests it is on a case by case basis*.'
7.a6r	**Secretariat response:** The Secretariat suggests to be clearer that precise parameters are now included to demonstrate the point at which local authorities would be required to use the current value model for property leases. This covers a number of issues raised by respondents on how a materiality based approach should work.
7.a7	An authority commented: '*Option 1 would result in [the] Council adding a larger number of assets to the revaluation portfolio, which would be a considerable cost. Although many of the leases held by [the] Council are for peppercorn or below market rate, and in accordance with the concessionary lease requirements, these would need to be measured at fair value which would require either valuers to determine value or equivalent market rates to base value on. Which again would come at a cost*.'
7.a7r	**Secretariat response:** The approach to the provisions in the Code Draft is such that they are only intended to ensure that those assets that would previously have been recognised as finance leases should be measured at current value. The approach has also maintained the policy for assets recognised as finance leases prior to the date of initial application so largely this should not be the case.

	Issue Secretariat Response
	The Secretariat has therefore updated the Code draft to reflect the comments of respondents and has: 1) Mandated that for items of plant and equipment the cost model is used as a proxy for current value – thus following the requirements of the FReM approach for those leases. 2) Mandated that for short lease term property (buildings) leases the same proxy should be used. 3) For assets with a lease-term at commencement of 30 years and greater the measurement requirements will be at current value (and confirmed that the measurement provisions for section 4.1 will be used). 4) As the CIPFA/LASAAC sub group recommended that land was measured on a discounted cash flow basis which is very similar to the cost model in IFRS 16, land will also be measured at cost. 5) If local authorities consider that leases of property whose lease term is less than 30 years would be best measured using a formal current value measurement rather than the proxy they may choose to do so. 6) Following transition where finance leases are transferred across at the carrying value – these assets will continue to be measured at current value in accordance with the provisions of section 4.1 of the Code. The objective of the above changes is to ensure that the reporting burden for the subsequent measurement is no more than it would have been under IAS 17 whilst still maintaining the benefits of current value measurement. The Secretariat would note that the drafting approach in the Code for the current value measurement is more rules based than the Secretariat would normally work to. However, this is principally to ensure that the reporting burden is kept to a minimum for local authorities. This is particularly the case as throughout the responses there are very frequent comments on the resources required to make the judgements and decisions required by adoption of IFRS 16. **CIPFA/LASAAC's views are sought on this approach.**

	Issue	Secretariat Response
	Question 7b – Option 1 Materiality Based Approach or Undue Cost or Effort	

	Issue	Secretariat Response
7.b1	A firm commented: '*A rebuttable presumption that right-of-use assets for property leases of less than 25 years (for example) have a current value that is materially similar to depreciated historic cost does not take into account the nature of the property nor the cost/value of the property relative to the size of the reporting entity. In our view, these two factors are critical in forming a materiality-based judgement.* *We consider that a better option would be to remind practitioners about materiality and leave them to form their own view based on the size and nature of each lease (i.e. without a rebuttable presumption linked to a certain length and type of lease*).' … '*If CIPFA were to pursue an option 1 based approach we expect this could lead to significant consolidation adjustments for WGA purposes. We encourage CIPFA to liaise closely with HM Treasury and the NAO on this matter to ensure such an approach would not lead to local authorities having to prepare consolidation returns on a different basis to the accounts.'*	The Secretariat takes the point. However, respondents supporting both options 1 and options 2 were concerned with the reporting burden of taking the materiality decision. Therefore a clear approach needs to be included which does not increase the reporting burden over that under IAS 17. Whilst it is true that the decision to account for a lease under IAS 17 was based on risk and reward the length of the operating lease was a substantial driver for the transfer of those risk and rewards. In addition, a number of commentators agree that the cost model as a proxy for current value becomes less useful to the users of the financial statements over a longer period. The Secretariat would note that following the approach in the FReM to the current proxy it does not consider that there will need to be consolidation adjustments. However, some additional commentary may be needed in the disclosures. **CIPFA/LASAAC's view is sought on the Code Draft approach**.
7.b2	An authority commented: '*Para 99 is too prescriptive in identifying a lease term of 25 years; it should be left for authorities to determine the length of lease that is consistent with their accounting policies and operational procedures. For example we tend to deem building leases granted to be operating leases*	Again the Secretariat agrees the point, however, a number of other respondents were concerned about the cost of the decision making process and 30 years would accommodate most decisions. At 50 years even if the asset would have previously been an operating lease such a long-term would be challenging for the cost model to be still usefully deemed to be proxy for current value.

	Issue	Secretariat Response
	if less than about 50 years, due to the life associated with that type of asset.'	**CIPFA/LASAAC's views are sought on this issue.**
7.b3	A number of respondents commented: '*To ease implementation issues CIPFA/LASAAC should consider the merits of requiring changes in valuation to assets held by lessees under operating leases on transition. Such leases could continue to be valued at depreciated historical cost, subject to a presumption that this continues to represent a suitable proxy for current value.'*	The Secretariat is not clear what these respondents mean as operating leases for lessees are not recognised and measured in local authority financial statements. **No further changes to the Code Draft**.
7.b4	A number of authorities sought the views on the approach on transition: '*If 25 year term is agreed, how would this be applied at adoption (i.e. 1 April 2019) - would it be based on term at commencement or the remaining term on adoption?'*	Again to ease the reporting burden and following the approach to some of the transitional provisions in IFRS 16 (eg the grandfathering approach relating to the identification of the lease) the Secretariat proposes that those assets previously recognised as finance leases should continue to be measured under the revaluation model until derecognition. **CIPFA/LASAAC's views are sought on this issue**.
7.b5	A number of respondents indicated that 'undue cost or effort' required interpretations which could be subject to debate. Three firms indicated that 'undue cost or effort' has been removed from FRS 102	The Secretariat concurs though agrees with the respondent who indicated that the materiality approach and the 'undue cost or effort' are not mutually exclusive issues. The Secretariat would note that the approach proposed in the Code ie to require current value measurement for leases with a lease term from commencement of 30 years and above does remove substantially issues relating to undue cost or effort. The Secretariat would note that the average length of finance leases was 59 years from the readiness assessment questionnaire but would note it is not clear how useful this is as there were a

	Issue	Secretariat Response
		wide range of responses from approximately 5 years to 900. With some in the mid ranges over 100 years.
7.b6	A firm commented: '*Concern however, that the suggestion that this could be used for property assets with a lease term of less than 25 years as this would:* ▪ *be inconsistent with non-leased asset approach* ▪ *would not materially reflect the value of these assets so would not be an accurate "proxy".'*	See response to 7.b1
7.b8	A firm said: '*We do not agree with either of the two approaches being proposed as practical expedients (as referred to in qu 7b) for current value measurement*' citing the Code's commentary that the Code does not include materiality thresholds. The firm continued that: '*The rebuttable presumption proposed would need to be evidence based which would require additional work*.'	See 7.b.1 The approach decided is intended to: ▪ offer a response which considers the materiality of the right-of-use asset ▪ resolve the cost concerns cited by many authorities and other respondents, particularly in relation to the number of new judgements and information requirements relating to the adoption of IFRS 16, and ▪ resolve some of the concerns relating to the use of the cost model for longer-leases and/or those leases either without rent reviews or where the rent reviews are of longer periods.
7.b9	The same firm commented: *'We also note that adopting a current measurement approach prevents inappropriate (low or negligible) valuations arising on concessionary leases which would not be the case were option 2 adopted.'*	This response is considered alongside the responses on concessionary leases for lessees.

	Issue	Secretariat Response
	'In terms of the most appropriate re-measurement method for measuring current value, we consider that the re-measurement of lease assets (and liabilities) arising from those property leases that contain regular market based rent reviews provides a useful practical expedient to requiring regular formal professional valuations for such leases.'	
	Question 8 – Subsequent Measurement of the Lease Liability	
8.1	An authority commented: '*I would agree that remeasurement should occur for material amendments to the lease, eg. material extensions or amendment to the original terms. However I would not reamesure the lease liability for increases in rent following a rent review but treat and account for them as contingent rent*. ' The same authority commented: *'The current pressure on valuers is fairly intense given the need to undertake the 5 yearly valuation cycle and also review those assets that are not in the plan for the year to ensure that carrying values are still materially correct. Adding additional valuations into the cycle is going to increase their burden, and probably costs, with potentially little benefit from the outcome compared to the costs involved.'*	The Secretariat can see no particular local government circumstances requiring an adaptation of this kind. The changes to the lease liability would not require additional remeasurement of the right-of-use asset. This would be treated in the same manner as subsequent expenditure on items of property, plant and equipment, as is set out in IFRS 16. **No further changes to the Code Draft**.
8.2	An authority commented: '*We need more guidance on modelling (eg with regards to writing down the lease liability) as this will depend on when the rental payments are made (eg at the start or end of the year or quarterly/monthly). It would also be*	This is not an issue for the Code but is an issue for application guidance and would be similar to issues considered under finance leases. **No further changes to the Code Draft**.

	Issue	**Secretariat Response**
	good to hear CIPFA/LASAAC's view on how an authority should practically link lease years with financial years (eg are prepayments adjustments expected for every lease)? We do not want to make an industry out of this as the costs will outweigh the benefits. '	
8.3	A number of respondents including a firm queried the treatment of the adjustments to the right-of-use asset as a result in the change to the lease liability and sought views on its interaction with statute and any right-of-use assets measured at current value. Some respondents indicated that these costs adjustments should be immediately written off to the Surplus of Deficit on the Provision of Services. The firm indicated that explicit guidance should be provided for this issue.	The Code Draft is clear that this is an adjustment to the right-of-use asset ie a change to the historical cost of the asset. This adjustment would be made in the same way as subsequent expenditure is added to the current value of an asset. These costs would therefore be included in any revaluation adjustments at the next revaluation and the statutory position would be exactly the same as it would be for any revalued asset. Local authorities will be used to the accounting entries for these assets and CIPFA already provides the relevant guidance for this treatment. However, this guidance can be reiterated for the CIPFA application guidance on IFRS 16. **No further changes to the Code Draft**.
8.4	An authority commented: '*Concern is that CIPFA have underestimated the amount of additional work that this approach will require. Recalculating all leases with indexation clauses/and again after each market rent review (which could be annually).*' '*This could also see a divergence between the subsequent measurement of the lease liability and the subsequent measurement of the right-of-use asset depending on the option selected to remeasure the right of use assets*.'	The Secretariat acknowledge that the adoption of IFRS 16 is likely to increase the reporting burden for local authorities this is as a consequence of the requirements of the standard. It is not inappropriate for the lease liability to differ from the right-of-use asset because of revaluations or other costs that are required to be recognised on initial recognition. **No further changes to the Code Draft**.

	Issue	Secretariat Response
	A number of other respondents raised the issue of the additional reporting burdens which arise as a result of the remeasurement of the lease liability. Some respondents recognised that new procedures will need to be established for this.	
8.5	An authority who agreed with the approach commented: '*However gains and losses from remeasurement of lease liabilities is missing from para 4.2.3.2 in the list of items to be transferred to CAA*.'	This is as this is covered by Module 4.1 as the remeasurement requirements refer to this section. Note that this replicates the current approach to the remeasurement of finance leases. **No further changes to the Code Draft**.
8.6	The same authority commented: '*Leaving aside the current proposed changes, the statutory requirements for accounting for premature termination of a finance lease in is a gap in the current Code which we have recently identified*.'	This is not an issue covered by accounting standards but has been addressed in the application guidance *Local Authority, Capital Accounting A Reference Manual* and was debated by the Local Authority Accounting Panel. The Secretariat would note that this transaction is not specifically dealt with under the statutory reporting requirements. **No further changes to the Code Draft**.
8.7	An authority and a confidential respondent requested clarification on paragraph 4.2.2.45 a) ie '*After the commencement date, a lessee shall measure the lease liability by:* *a) increasing the carrying amount to reflect interest on the lease liability.'*	The lease liability is measured in a similar way to other financial liabilities using the effective interest rate method. The carrying amount of the lease liability is measured at amortised cost and the interest is allocated over the lease term. **No further changes to the Code Draft**.

	Issue	Secretariat Response
8.8	An authority also requested clarification in relation to commentary in the ITC on: '*Change in future lease payments resulting from a change in an index or a rate used to determine those payments…'* Enquiring: *'Is this from a move to a different index or just a change in the lease payment as a result of a programmed review using a specified index, i.e. to increase the payments to reflect the real value movement…'*	It might be both but circumstances are unlikely to be such that the index itself changes, it might be a change in market rentals for instance. **No further changes to the Code Draft**.

Concessionary Leases – Lessees Only

Question	Agree	Disagree	No Comment
9 Do you agree with CIPFA/LASAAC's approach for accounting for concessionary leases for lessees? If not, why not? What alternatives do you suggest?	50 (62%)	7 (9%)	23 (29%)

	Issue	Secretariat Response
	Question 9– Concessionary Leases - Lessees Only	
9.1	Almost all local authority respondents and confidential respondents (even those that agreed with the approach outlined in the Code Exposure Draft) indicated that that there would be substantial difficulties, (if not on occasion an impossible task) to be able to provide a market rate to measure the lease liability and the fair value of the leased asset. One authority cited the issue of leases with	The Secretariat recognises that although this was a reasonable conceptual approach based on principles already adopted by the Code - it would seem that in practice this would be very difficult to deliver. Although the respondents did not cite many examples where it would be difficult to establish the rates.

	Issue	Secretariat Response
	schools (assets) where there is no market rate whilst another referred to community assets.	It is noted that the IPSASB papers for its September 2018 meeting in its analysis of its consultation responses indicate that there is support for the accounting treatment for concessionary leases for lessees but there is some disagreement. For this issue it may be best to await the final provisions of an IPSASB pronouncement on concessionary leases. In addition, the Secretariat considers that as there appear to be substantial practical difficulties in adopting this treatment that there should be a review of this approach.
9.2	A small number of respondents and commentators as a part of the impact assessment also query the definition of a concessionary lease and how this would impact on substantial discounts provided by lessors.	The definition in the Code following the IPSASB ED64 definition is: '*a concessionary lease is a lease at below market terms'*. The Secretariat would concur that this is an issue which would require some judgement by accounts preparers.
9.3	One authority commented: *'The use in draft para 4.2.2.46 of 'fair value' rather than 'current value' for the measurement of the asset on recognition is at odds with the requirements for subsequent measurement and appears to contradict para 2.10 b. Current value would be more appropriate here, but it also needs to be clarified that this is as per 4.1.2.30->33.'*	This is the normal approach in standards where cost is not available on initial recognition fair value is used. See for example the initial recognition of donated assets in the Code.
9.4	An authority commented: '*There would also need to be further guidance on how to account for the subsidy/grant and how to determine in practical situations whether there are conditions (akin to grant*	The subsidy would be accounted for in a similar manner to the accounting treatment of 'soft loans'.

	Issue	Secretariat Response
	conditions that may require repayment) within the lease – for example, would it just be the ability of the lessor to revert to market rate thus wiping out the subsidy within the lease transaction or ability to cancel the entire lease such as termination options with the lease?'	The accounting treatment for meeting the grant conditions would follow the treatment in section 2.3 of the Code.
9.5	An auditor that agreed with the approach commented: '*Para 4.2.2.49 states that the lessee should use its incremental borrowing rate if that can be readily determined. Otherwise, the lessee should use 'market interest rates'. We are not clear on what is meant by 'market interest rates' – market interest rate for what…'* '*Para 4.2.2.46 requires a lessee to recognise a right-of-use asset acquired through a concessionary lease at fair value on initial recognition. We understand this to be the fair value of the right-of-use asset and not the underlying asset. Subsequent measurement could (and likely will be) current value in existing use which could be lower than fair value. We question whether it is appropriate to recognise an immediate impairment in such circumstances or whether such assets should continue to be measured at fair value.'*	The market interest rate would be arrived at using similar criteria to the incremental borrowing rate. The remeasurement of the right-of-use asset would follow the process for the remeasurement of other right-of-use assets. However, following from other commentaries it is unlikely that local authorities will be able to measure at fair value following the IPSAS requirements for concessionary leases. **CIPFA/LASAAC is invited to note this issue.**
9.6	The same firm continued '*We note that CIPFA/LASAAC's proposed approach is different to that proposed by HM Treasury. We can also see justification for HM Treasury's approach and encourage CIPFA/LASAAC to undertake further research to confirm that if their*	If as appears to be evidenced by the comments on the consultation that it is not possible or very difficult to establish market based rates to estimate the fair value of the liability and the right-of-use asset then the Secretariat would comment that the best approach appears to be to follow HM Treasury approach for leases at peppercorn rates or nominal

	Issue	Secretariat Response
	approach were applied then no significant additional work would be required for WGA consolidation returns.'	consideration. This being subject to the application of those principles to local authorities. **CIPFA/LASAAC's views are sought on this issue.**
9.7	A firm noted the different HM Treasury approach which it indicated was broadly in line with the principles for the donated asset. It noted that the Code consultation indicated that: '*the consultation sets out that right of use asset should be measured at fair value by discounting the market based lease payments using the market rates. In our view, the Code shouldn't be stipulating a fair value calculation but making reference to the IFRS 13 Code requirements'* '*Any difference between the fair value of the right-to-use asset and the consideration to be paid shall be recognised immediately in the Comprehensive Income and Expenditure Statement as income as per Code para 2.3.2.13*.'	The measurement of the right-of-use asset was following the proposals in the IPSASB ED 64 *Leases*. Additionally there is already a scope exclusion in IFRS 13 *Fair Value Measurement* on leases so the different treatment is conceptually sound. However, if authorities are not able to identify the relevant market payments to measure the fair value under the IPSAS ED approach then they will need to measure fair value in accordance with IFRS 13 as adopted by the Code which will allow the use of DRC. The Secretariat therefore again recommends following a similar approach to HM Treasury and aligning as far as possible with the treatment of a donated asset. **CIPFA/LASAAC's views are sought on this approach**.
9.8	Another firm commented: '*The FReM requires donated assets (which are similar in substance to concessionary leases) to be capitalised at current value in existing use or fair value on receipt depending on whether the assets will be held for their service potential. This is not listed in the FReM as a specific adaptation or interpretation of IAS 16.'* *'Given this relative lack of clarity as to how IAS 16 would be applied to a concessionary lease in a public sector context we believe that the Code should follow the approach adopted*	The Secretariat agrees from a conceptual or principles basis that the treatment in the IPSASB approach to concessionary leases would be appropriate but given local authority responses in relation to the information requirements then it seems that in practice this would be difficult to achieve. **CIPFA/LASAAC's views are sought on this issue.**

	Issue	Secretariat Response
	by IPSASB in ED 64, which is also consistent with the approach adopted in the Code to other transactions (such as soft loans) with little or no commercial substance. '	

Lessor Accounting

Question		Agree	Disagree	No Comment
10	Do you agree with CIPFA/LASAAC's approach for accounting for lessors? If not why not? What alternatives do you suggest?	66 (82%)	2 (3%)	12 (15%)
11	Do you agree that CIPFA/LASAAC should retain the dual lessor accounting model (ie which maintains the operating and finance lease split) in the Code? If yes, why? If not why not? What alternatives do you suggest?	56 (70%)	10 (13%)	14 17%)

	Issue	Secretariat Response
	Question 10– Approach to Lessor Accounting and Question 11 Dual Accounting Model	
10.1	Most respondents (with one exception didn't have detailed comments on lessor accounting and comments were largely on the appropriateness of the dual accounting model and therefore questions 10 and 11 are considered together.	**No further comment.**
10.2	One authority queried the treatment of sub leases- for a head lease enquiring: *'.. what is the definition of a 'short-term' lease? Is this 12 months or another lease term? Will this*	The definition of short-term leases would be that within the standard. There is an impact in relation to investment properties but not related to short-term leases. **No further change to the Code Draft.**

	Issue	Secretariat Response
	classification change affect Investment Property held on a lease?'	
10.3	The responses to both questions indicated a majority in favour of retaining the dual accounting model and the finance and operating lease split with respondents commenting: ▪ this was important for revenue recognition ▪ it reduced the burden of adopting IFRS 16 (some respondents welcomed the lack of change from the IAS 17 position) ▪ a number of respondents recognised the asymmetry and were not overly concerned ▪ respondents noted that HM Treasury was aware of the asymmetry and therefore considered that processes would be in place to accommodate this ▪ a firm indicated that it agreed with the IASB's arguments for the lessor accounting model ▪ two firms indicated that they saw no compulsion to move away from the provisions of IFRS 16 (and thus adapt the standard) ▪ one authority commented that the lessor accounting principles were well understood and it did not consider that users required adjustments to understand the complete picture ▪ one authority commented it was not aware of substantial leasing activity between public sector bodies.	The Secretariat would recommend that the lessor model in IFRS 16 is retained and would note that authorities in this consultation and the last consultation on IFRS 16 were keen that if the standard were adopted it is not subsequently revised in the near future. **No further change to the Code Draft.**

	Issue	Secretariat Response
	▪ a number of authorities were very keen with one saying it 'strongly agreed' with the status quo and didn't want this to change in the future.	
11.2	A number of respondents considered that the IPSASB approach could resolve the asymmetry issue. One respondent's response focussed on an analysis of the IPSASB lessor accounting model which it did not consider was consistent with IPSASB's own conceptual framework and proposed an alternative treatment.	The Secretariat would note that the IPSASB is still considering the consultation responses and therefore would suggest that following CIPFA/LASAAC's earlier decision was not to pursue the IPSASB model as the standard is not yet fully developed. The responses to both consultations indicate that although there is some concern about the asymmetry there are no overwhelming objections to applying the lessor accounting model in IFRS 16. **No further change to the Code Draft.**
11.3	A number of respondents were concerned about the asymmetry, the potential for inconsistency and the impact on the group accounts.	See previous response row 11.2.

Sale and Lease Back

Question		Agree	Disagree	No Comment
12	Do you agree with CIPFA/LASAAC's approach for sale and leaseback transactions? If not why not? What alternatives do you suggest?	57 (71%)	1 (1%)	22 (28%)

	Issue	Secretariat Response
	Question 12– Sale and Leaseback	

	Issue	Secretariat Response
12.1	Most respondents made either no comments or generally supportive comments for the approach in the Code.	**No further comment.**
12.2	One authority that indicated that the proposed approach was difficult to understand commented: '*It would be more practical to account for the sale and the leaseback as 2 separate and independent transactions (1. Sale and 2. Lease in) rather than limit the gain/loss on sale to the proportion of the asset transferred to the lessor (i.e. the % not subsequently leased back in). This would not be an issue if the leaseback were for 100% of the asset value and asset useful life.*'	This would not be consistent with the standard and there are no clear public sector reasons for such an adaptation. **No further changes to the Code Draft.**
12.3	One authority and a confidential respondent requested consideration that the sale and lease back transactions being treated prospectively on transition.	The transitional provisions in IFRS 16 require that the assessment is not made retrospectively on transition and the other transitional arrangements for sale and leaseback should reduce the reporting burden per paragraphs 4.2.2.100 to 4.2.2.102 of the Exposure Draft.
12.4	A firm commented: '*in our experience the principal complexities surrounding sale and leaseback accounting relate to questions around the recognition of capital receipts and the treatment of any gains for council tax purposes. These complexities are driven by the application of the capital financing rules set out in the Local Government Act 2003 and related regulations, not by the accounting rules.*'	The Secretariat agrees with this comment and will explore whether there are any issues arising for local authorities but would note that there is no current evidence as a result of this consultation process. **CIPFA/LASAAC's views are sought.**

Transition

Question	Agree	Disagree	No Comment
13 Do you agree with CIPFA/LASAAC's approach to the definition of a lease on transition? If not, why not? What alternatives do you suggest?	67 (84%)	3 (4%)	10 (12%)
14 Do you agree with CIPFA/LASAAC's approach to retrospective transition? If not why not? What alternatives do you suggest?	67 (84%)	2 (2%)	11 (14%)
15 Do you agree with CIPFA/LASAAC's proposal in relation to the transitional approach to measuring the right-of-use asset for those assets previously classified as operating leases? If not why not? What alternatives do you suggest?	68 (85%)	2 (2%)	10 (13%)
16 Do you agree with CIPFA/LASAAC's approach to the practical expedients on transition? If not, why not? What alternatives do you suggest?	64 (80%)	2 (2%)	14 (18%)

	Issue	Secretariat Response
	Question 13– Transition – Definition of a Lease	
13.1	Note unfortunately question 14 was repeated twice in an early edition of the response sheet. This was corrected by the Secretariat a couple of weeks prior to the end of the consultation. A number of respondents corrected the error themselves. However, the positive responses of 16 respondents could be subject to question. A reworking of the statistics without these 16 responses would mean that 62% were clearly in favour at 50 responses. The Secretariat would also note that none of these respondents gave any indication that they disagreed with the approach to the definition of a lease	**The Secretariat considers that there should be no further action**

	Issue	Secretariat Response
	at transition. 50 positive responses remains a favourable response rate.	
13.2	The majority of comments from respondents supported this change noting that it: ▪ would have been the option they would have chosen in any event ▪ was a practical approach and reduced the reporting burden with a firm commenting that this was consistent with the proposed approach of HM Treasury in the FReM	**No further comments.**
13.3	A small number of respondents raised concerns about audit issues arising with one commenting: '*there are rumours that some audit firms consider a complete re-assessment of existing contracts may in fact be necessary. Clearly this has significant implications in terms of the adoption / transition workload. And if the auditors do insist on re-assessment of all existing contracts, there is no longer any 'practical expedient' – despite this being advocated within the standard itself*.' A firm commented: '*we believe that the greater risk is that authorities will use this practical expedient to grandfather erroneous assessments that existing contracts do not contain implicit leases under IFRIC 4. This practical expedient is not an amnesty and any material errors in existing accounting discovered in the transition process will have to be corrected*.'	The Secretariat cannot formally comment on this issue but would note that the CIPFA Leases Briefing 2 indicated that authorities would benefit from reassuring themselves of their current assessments under IAS 17 and IFRIC 4. The Secretariat would consider that this will be a practical issue which will has the potential to add to the workload of local authorities. **No further change to the Code Draft**
13.4	A firm commented (as it has to most of the issues on adaptation and	The Secretariat would note that initially both the CIPFA/LASAAC sub group and

	Issue	Secretariat Response
	interpretations proposed in the Code) that there should be the minimum of adaptation to IFRS in the public sector and considered that this practical expedient should be left to individual authorities. The firm noted that current wording in para 4.2.2.89 of the Exposure Draft does not imply this is mandatory.	the CIPFA/LASAAC had not mandated this practical expedient on transition. Following consideration of the HM Treasury approach CIPFA/LASAAC met to consider this issue and agreed that it could mandate this practical expedient in the same way as HM Treasury. The Secretariat would note that there were no responses indicating that the respondents would not make this choice. The Secretariat would agree that this late change had not been fully applied to the Exposure Draft and has made the relevant correction. As this is a mandated practical expedient which will apply to the whole of the public sector the Secretariat has included a commentary that the disclosure requirements resulting from this should only require a brief statement. **CIPFA/LASAAC's views are sought on these changes.**
13.5	One authority that agreed with the approach commented: '*However the situation as regards subsequent extension of such contracts would need to be clarified.*'	The Secretariat considers that the decision would hold unless it would fall to be accounted for as a contract modification under IFRS 16. **No further change to the Code Draft**
	Question 14– Approach to Retrospective Transition (Cumulative Catch-up Approach)	
14.1	There may be an issue relating to the error in the response sheet but to a substantially lesser extent than for question 13.	**No further comment.**
14.2	The majority of respondents agreed with the cumulative catch-up approach on retrospective adaptation. The positive support focused on the ease of reporting, the similarity to the approach to IFRS 9 and IFRS 15 and consistency with other local	**No further comment.**

	Issue	**Secretariat Response**
	government and public sector reporting entities.	
14.3	An authority and a representative body requested that there should be no retrospective restatement.	The Secretariat understands that this would be a reporting burden but it would be very difficult to present the new changes and to account effectively for them without restating the cumulative effects of previous years' transactions. The Secretariat would note that there are a number of practical expedients to reduce the reporting burden on transition. **No further change to the Code Draft**
14.4	An authority commented: '*It would be helpful if example accounting entries could be provided, particularly in relation to 'adjustment to reserves ...* '	CIPFA will provide application guidance on transition. **No further change to the Code Draft**
14.5	An authority responded: '*Suggest practical expedient is extended so that any contracts that were NOT previously assessed against IFRIC4/IAS17 on materiality grounds, that may contain operating lease components, are excluded from scope and only new contracts are assessed against IFRS16; ie an adaptation in the Code to apply this prospectively from date of initial application.*'	There should be no need to cover this issue in the Code as this is covered by the Code's provisions on materiality. **No further change to the Code Draft**
14.6	An authority enquired: '*how would this work where an existing lease is separated into both a finance and operating lease, with the finance element currently on the balance sheet under PPE. With the inclusion of the operating element into the balance sheet, there would need*	Right-of-use assets will need to be disclosed in accordance with the requirements of IFRS 16. **No further change to the Code Draft**

	Issue	Secretariat Response
	to be a transfer from PPE to a new disclosure note.'	
14.7	A respondent commented: '*It should be made clear that for many organisations there is no retrospective adjustment to reserves, as the amount of rental income previously charged as an expense to the CIES is replaced with interest and MRP charges to the same total value. It is understood that there will be an impact on HRA authorities, and so this should be set out accordingly*.'	The statutory position in England is such that General Fund balance should not be substantially different on the adoption of IFRS 16. However, there are likely to be adjustments to the other reserves of the authority to maintain as a result of the adoption of the standard. **No further change to the Code Draft**
	Question 15– Transition - Measuring the Right-of-Use Asset	
15.1	The majority of respondents agreed that this was the most transparent approach which reduced the reporting burden for local authorities.	**No further comment.**
15.2	An authority commented: '*I am assuming that assets transferred from PPE will do so in year 2019/20 with their 2018/19 closing NBV being retained in the opening balance of PPE?*'	There are transitional reporting requirements which allow finance leases assets to be measured at their carrying value at the 31 March 2018. **No further change to the Code Draft**
15.3	An authority commented '*Further guidance on how to retrospectively calculate the lease liability when rents have changed and terms have been reviewed/extended would be welcome - for example whether different discount rates need to be applied to different years of the lease - or whether just the remaining payments can be discounted at the incremental borrowing rate at the date of transition.'*	There are transitional arrangements for the lease liability on transition. **No further change to the Code Draft**

	Issue	Secretariat Response
15.4	A confidential respondent commented: *'The complication comes in calculating the lease liability. Also, some examples suggest that using the modified retrospective approach (as opposed to the full retrospective approach) results in the Asset being a higher value than it would if the full retrospective approach were used. This results in higher amortisation and less comparability with new leases entered into subsequent to the date of initial application.'* *'We also note that different approaches may be used for each individual lease, which although potential useful, adds again to the burden of tracking and recording this information*.'	This is a possibility but has to be set against the reduced reporting burden. The Secretariat would not recommend changing the transitional approach to the measurement of the lease liability. **CIPFA/LASAAC's views are sought on this issue.**
15.5	A confidential respondent commented: '*When measuring the right-to-use asset for new leases in 4.2.2.45 d) we are to include the costs of restoration however for the transitional approach in measuring the right-to-use asset in 4.2.2.92 b) it does not mention including these costs. This could lead to inconsistencies if they are to be treated differently based on whether it is for a new or existing lease.'*	The restoration costs should be included in leases under current standards. The Secretariat recognises that this requirement is more explicit in IFRS 16. **No further change to the Code Draft**
	Question 16– Practical Expedients	
16.1	The vast majority of respondents agreed with the approach to mandating the practical expedients	**No further comment.**

	Issue	Secretariat Response
	and indicating that it considered the options to be mandated reasonable.	
16.2	An authority and a firm could not see the rationale for mandating the practical expedients with the authority indicating that it believed authorities would use those practical expedients and the firm indicating that adaptations should only be made where absolutely necessary.	CIPFA/LASAAC and its working group initially did not see the need to mandate these practical expedients but took the decision at its March 2018 meeting to mandate these following its decision to follow the approach in the FReM where possible and subject to local government circumstances. **No further change to the Code Draft**
16.3	A confidential respondent and a firm commented that the mandating of the practical expedients would lead to more work indicating: '*For authorities with extensive portfolios, the number of expedients available will lead to a significant amount of time, and effort to determine, which ones to use, calculate the adjustments and make amendments to systems and processes, and then draft the required disclosures*.'	These were the only respondents which indicated that this was the case. However, CIPFA/LASAAC's views are sought on the issue. **The Secretariat would seek CIPFA/LASAAC's views on this issue**.
16.4	A firm commented: '*Would consider that third point re hindsight should be adopted but as "calculated based on knowledge at date of transition".*' A second firm and an audit body considered that the use of hindsight should be mandated.	It is not clear what the advantage of mandating the use of hindsight is. Local authorities will know if they have the information to enable them to use hindsight and whether its use will allow them to accurately present the relevant transactions. It is possible if hindsight is mandated it would be an additional cost burden to the authority if authorities are instructed to use it. **The Secretariat would seek the CIPFA/LASAAC's views on this issue**.

Consequential Amendments – Service Concession Arrangements (PFI/PPP Arrangements)

Question	Agree	Disagree	No Comment
17 Do you agree with CIPFA/LASAAC's proposals for the consequential amendments to the measurement of service concession arrangement (PFI/PPP) liabilities or do you consider that the current approach to measurement (ie the IAS 17 measurement as a finance lease) should be retained? If you agree, why do you agree? If not why not? What alternatives do you suggest?	30 (38%)	28 (35%)	22 (27%)

	Issue	Secretariat Response
	Question 17– **Service Concession Arrangements (PFI/PPP Arrangements)**	
17.1	The vote was very evenly split between those respondents that supported the measurement of the service concession arrangement liability moving to the requirements of IFRS 16 to those respondents that considered that the Code should maintain the current provisions. Although the vote was slightly in favour of the move to IFRS 16 one respondent that indicated that it was in favour provided comments that differed from this. The Secretariat would note although it is not absolutely certain it appears that the majority of respondents with PFI contracts did not support the move to IFRS 16. To ensure that the Board has a full understanding of the nature of the comments provided all substantial comments made have been included as an Annex to this Appendix.	**The Secretariat would bring this to the attention of CIPFA/LASAAC.**

	Issue	Secretariat Response
17.2	Most of the respondents that disagreed wished to maintain the current IAS 17 measurement approach and indicated that: ▪ any change would substantially add to the workload (as some respondents indicated that most contracts did included annual increases for inflation) ▪ the proposals for change may require additional consultancy advice or changes to complex models, and ▪ they considered that the current measurement model adequately reflected the position for the users of the financial statements.	The Secretariat would note that one of the firms indicated that the IAS 17 model was no longer fit for purpose and that all of the firms or audit bodies considered that IAS 17 should no longer be used. The Secretariat would highlight that one FRAB member raised concerns about the possibility of the Code retaining the IAS 17 finance lease liability measurement model. **The Secretariat would request that CIPFA/LASAAC note that additional cost burden highlighted by respondents.**
17.3	A number of those respondents that agreed with the change considered that this was a consistent approach and referred to consistency with the rest of the public sector.	**No further comment.**
17.4	One authority argued that it would be difficult to work out which element of the contract to inflate. It also argued that it might have consequences for the capital financing model.	The Secretariat would concur that the change in treatment is not without its complexities. It should be noted that the English capital finance system should largely mean that the General Fund position is unchanged due to the February changes to the Statutory Guidance on the Minimum Revenue Provision but there might be other elements of the finance system which could be impacted on by this issue. **CIPFA/LASAAC's views are sought on this issue**.
17.5	One authority requested additional time to be able to assess the impact on the PFI model.	The Secretariat is of the view that it is important that CIPFA/LASAAC fully understands the impact of the move the liability measurement has on local authorities. It may therefore be

	Issue	Secretariat Response
		worthwhile delaying the implementation of this particular change until the Board is happy that it understands all the potential impacts. **CIPFA/LASAAC's views are sought on this issue**.
17.6	A firm mentioned that the only other viable measurement model for the liability was that under IFRS 9.	CIPFA/LASAAC consulted in 2013/14 on the moving to a financial instruments measurement model. This proposal also had a substantial negative response from local authorities (this was referred to in the consultation papers).
17.7	A firm commented: '*We consider that the adoption of IFRS 16 is an opportunity for CIPFA to simplify and further align the accounting treatment for service concessions with IFRS rather than relying on a 'mirror-image' of guidance for operators of public‑to‑private service concession arrangements. As IFRS 16 changes the definition of a lease and provides new guidance on applying the definition, including guidance on separating components of a contract, a local authority could look to IFRS 16 rather than IFRIC 12.'*	CIPFA/LASAAC has undertaken a post-implementation review on the accounting provisions in the Code for service concession arrangements and is currently consulting on the recognition provisions for third party income. An alternative may be to delay changing the provisions of section 4.3 until the post-implementation review, which could be extended to include the issues raised by the firm (which are reasonable suggestions) rather than change elements of section 4.3 on a piecemeal basis. **CIPFA/LASAAC's views are sought on this issue.**
17.8	A firm commented that it thought that the provisions of the Code would be improved by the IFRS 16 provisions and this may also improve the measurement models of some authorities with service concession arrangements.	This is useful to note. However, it again may be useful to provide more review time for authorities to ensure that they fully understand the consequences of moving to a new measurement model. **The Secretariat would recommend that a post-implementation review group be established with authorities that have complex PFIs and with PFI experts to ensure a thorough review of the Code's**

	Issue	Secretariat Response
		provisions on PFIs and the impact that any changes may have.
17/1 to 17.8r	**The Secretariat would note that no changes have been made to the Exposure Draft at this juncture but would anticipate that this issue needs to be reviewed following debate by CIPFA/LASAAC.**	

Effective Date

Question		Agree		Disagree		No Comment	
18	Do you agree with the proposed effective date for public sector implementation of IFRS 16? If yes, why? If not, why not? What alternatives do you suggest?	52 (65%)		18 (23%)		10 (12%)	
	Readiness Questionnaire Response						
		Strongly Agree	Agree	Possibly	Disagree	Strongly Disagree	NC
12	Does the authority consider that it will be able to implement the reporting requirements of IFRS 16 for the 2019/20 financial year, please insert the following: ▪ Strongly agree ▪ Agree ▪ Neither agree nor disagree (possibly) ▪ Disagree ▪ Strongly disagree ▪ (No comment)	0 (0%)	33 (50%)	14 (21%)	3 (4%)	3 (4%)	14 (21%)

	Issue	Secretariat Response
	Question 18– Effective Date	
18.1	The Secretariat considered that it was useful for CIPFA/LASAAC to consider the two questions included in the consultation papers on the date of implementation of IFRS 16 in the Code. The first question was based on the effective date but the question in the readiness assessment focussed more on the level of preparedness of local authorities. It is positive that both assessments indicate that they 1) favour the effective date and 2) the majority of respondents consider that they will be able to implement all the reporting requirements in relation to the effective date. What is concerning is that only 49% of respondents agree that they will be able to implement the requirements with the remainder either not being able to commit to this assessment, (ie by neither agreeing nor disagreeing) or including those respondents who either disagree or strongly disagree. The response rate to the effective date is more positive at 65% but again the Secretariat is concerned that 23% of respondents disagree with this date.	
18.2	The majority of respondents agreed with the effective date of the standard, citing consistency with the public and the private sector. Some respondents who agreed still noted resource issues that would arise as a result of implementation.	**No further comments.**
18.3	A substantial number of respondents considered that the ability to meet the effective date depended on the timing of the issue of the Code and the relevant application guidance (with one authority requesting confirmation of the Code's provisions by the end of October 2018 with application guidance provided at least nine months prior to adoption).	It is noted that CIPFA was able to issue early application guidance on IFRS 9 *Financial Instruments* based on the publication which CIPFA/LASAAC issued alongside the 2017/18 Code which contained CIPFA/LASAAC's agreed position on IFRS 9. Thus both the Code and application guidance were issued to allow local authorities effective preparation time. Although the IFRS 16 consultation was issued earlier than the normal timescales for Code consultations (by approximately 2 months) the IFRS 16 timetables do not offer substantial time to produce application guidance (though it should be noted that the Leases Briefings do

	Issue	Secretariat Response
		provide some application guidance on the adoption of IFRS 16). The Secretariat understands that HM Treasury anticipate issuing early application guidance on IFRS 16. **CIPFA/LASAAC's views are sought on this issue**.
18.4	A number of respondents (including a representative body) disagreed, sometimes strongly with the implementation date of 1 April 2019. Some authorities noted that they didn't see the value that the standard was adding to the financial statements. Other respondents noted the time required and resources to undertake their own impact assessment and implement effectively, to understand and introduce systems to meet the new information requirements and others indicated that it would be beneficial to learn from the lessons of the corporate sector's implementation of IFRS 16. A number of authorities cited the difficulties of obtaining the relevant information from external departments but particular emphasis was placed on schools by a number of authorities (with a number indicating that schools would have substantial volumes of operating leases). One authority considered that at least a year's delay was required. One authority emphasised their concern about the timing of adoption in its covering letter and said: '*we are of the view that at this time it places an unreasonable burden upon Councils for no discernible benefit to the user of the financial statements. This burden is primarily one of*	The Secretariat invites CIPFA/LASAAC's comments on the issues raised and would note that the proposed adoption of IFRS 16 from current timetables follows the adoption of two substantial new standards which arguably have not yet had time to bed in. Additionally, CIPFA/LASAAC is already aware that in September 2016 the FRC consulted on the UK GAAP approach to adoption of IFRS 16 in its Triennial Review. The original timetable in that consultation was for UK GAAP to incorporate the IFRS 16 requirements by 2022. However, the FRC Feedback Statement indicates that: '*Further evidence-gathering and analysis needs to be undertaken before a decision can be made on the most appropriate timetable and approach for reflecting the principles of IFRS 16 in FRS 102, if at all.*' The Secretariat would note that some local authorities are of similar sizes to bodies implementing FRS 102. Information gathering particularly for schools will be a substantial issue for some local authorities. **CIPFA/LASAAC's views are sought on this issue**.

	Issue	Secretariat Response
	resources including; staff time, the cost of engaging external valuers / consultants, development of IT systems etc. This would be a difficult challenge in the current time of austerity.'	
18.5	One authority commented: '*most LG Bodies are ill-prepared for the effective date of 1 April 2019 and, given the significant work required to implement, simply will not be ready in time. This exacerbates the risk of i) more LA's failing to meet the Statutory SoA Deadline ii) increase in non-standard Audit Opinions – neither of which will reflect well on the industry or its Professional Accounting Body. Given this it would be prudent to defer adoption by 1 year to 1 April 2020'.*	**CIPFA/LASAAC is invited to note the comment.**
18.6	Most of the audit bodies and auditor respondents considered that the effective date was appropriate. One firm indicated that it considered consideration should be given to CIPFA's impact assessment.	**CIPFA/LASAAC is invited to note the comments.**
18.7	One authority considered that it was necessary to wait until the IPSASB had finalised the single lessor accounting model.	**CIPFA/LASAAC is invited to note the comment but to also refer to the responses on the lessor accounting models to questions 10 and 11.**
18.8	A confidential respondent requested consideration of a phased approach ie that the standard only applied to new leases on 1 April 2019.	Essentially the respondent is suggesting prospective application which the Secretariat consider would be very confusing for users of the financial statements. **CIPFA/LASAAC's views are sought on this issue**.

Further Areas

Question
19 Are there any areas within the Code in relation to IFRS 16 where additional guidance would be helpful?

	Issue/Secretariat Response
	***Question 19*– Further Areas**
19.1	A large number of respondents requested further guidance on the application of the provisions on low value leases.
19.2	A large number of respondents sought views and further guidance of the impact of schools and the removal of operating leases classification.
19.3	Respondents sought views on the impact on the HRA and the borrowing limits (including the possibility and impact of their breach) and recommended that this issue be referred to government by CIPFA. The issue relating to borrowing limits has been removed by the revocation of the Limits on Indebtedness Determinations on 29 October 2018. **CIPFA has already raised this issue with MHCLG and the devolved administrations in Wales and Scotland.**
19.4	Respondents sought additional guidance on the identification of a lease and the transitional arrangements.
19.5	A number of respondents requested specific guidance on the treatment of the incremental borrowing rate, with some requests that the Code mandates the PWLB rate.
19.6	Specific guidance was requested on accounting for transactions between police bodies in the same group.
19.7	Guidance was requested on modelling of the lease liability write-down in particular where payments are made monthly or quarterly and lease years do not tie in with financial years.
19.8	Guidance was requested on how to account for lease liability changes where an asset is held at current value (**see row 8.3 above**).
19.9	Detailed queries were included on: ▪ lease extensions ▪ scope exclusions ▪ the treatment of lease premiums ▪ derecognition treatment

	Issue/Secretariat Response
	▪ residual Values ▪ application of the portfolio exemption ▪ revaluations ▪ owner-occupied property held by the lessee ▪ leases that had been accounted for as investment properties.
19.10	Guidance was requested on the treatment of Whole of Government Accounts issues.
19.11	More detail was requested on the impact of the capital financing implications of IFRS 16.
19.12	One authority commented: '*Where leases are index-linked, it is possible in the early years for the interest charge to CIES to be higher than the cash payment, resulting in the liability increasing. This will cause complications where MRP is made equal to the principal repayment, since MRP cannot be negative, and can result in the lease liability increasing above the CFR*. '
19.13	Guidance was requested on Group Accounts including consolidation adjustments.
19.14	Guidance was requested on the treatment of restoration and removal costs.
19.15	Guidance was requested on concessionary treatment for lessors – **note this is already included in the Code Guidance Notes.**
19.16	Guidance was requested on the treatment of operating leases on transition – **note this is already implicitly covered in the statutory guidance on the Minimum Revenue Provision issued by MHCLG in February.**
19.17	Detailed guidance was requested on the accounting entries for various transactions – **Note this is normally provided in the Code Guidance Notes.**
	Secretariat response: **Note it is likely that the application guidance provided by CIPFA will cover the majority of those items listed above.**

Annex Responses to Question 17 – Measurement of Service Concession Arrangement Liabilities

Local Authorities

On initial consideration, this change of approach would create a significant administrative burden for the Council. The financial impact is difficult to assess at this stage.
My understanding is that IFRS 16 is being introduced to ensure that assets which currently provide economic benefit to the authority are included in the balance sheet together with the equivalent liabilities associated with operating leases entered into. Under IAS17, Council assets are currently on balance sheet, as is the corresponding liability associated with the PFI schemes. Apart from the Highways Infrastructure assets shown at DHC, all other PFI assets are revalued on a cyclical basis consistent with their asset category within PPE. Is the suggestion to transfer these to Right of Use assets, which seems illogical as they are our assets already and not leased in? If the intention is to remeasure the liability for changes in, say, RPI, is that based on standstill increases, or RPI over and above that already assumed within the contracts and resultant operators and financial models? I assume the change in liability would be balanced by an amendment in the asset value. Will this make the cyclical revaluation of PPE assets redundant? This would be inconsistent with the accounting treatment of other council owned assets and lead to greater confusion overall, with significant additional work required. We currently treat any RPI movement, in comparison to the assumed inflationary increase of 2.5% pa, as contingent rent. It would be inconsistent to treat new PFI schemes entered into after 1 January 2019 from ones already in existence.
In line with my answer to question 8, I am in agreement with making a reassessment of the lease liability where the lease has been modified, but am not in favour of making any reassessment for changes to estimates of items within the lease which were made on commencement.
The retention of the current approach for PFI arrangements would maintain consistency and minimise the impact on Authorities.
Retaining the existing approach maintains consistency and does not add further complexity and burden.
The vast majority of service concession arrangements include provisions for the contractual payments to increase annually by some measure of inflation. This would make it likely that the PFI liabilities would need to be re-measured annually under the IFRS 16 model. Authorities would undoubtedly need to access specialist expertise to undertake the re-modelling that would be required under IFRS 16, which would be costly. We would therefore contend that the IAS 17 model should be retained on cost/benefit grounds.
Retaining IAS17 measurement will maintain consistency of accounting treatment and minimise impact on practitioners for potentially annual changes due to RPI.
The current approach to measurement measures the schemes we operate in the most transparent way.
Our local Authority currently uses the lift model to calculate the PFI liability and if IFRS 16 were to be adopted and the liability remeasured annually to account for changes in RPI this would complicate the accounting for the PFI liability however there is benefit in moving to IFRS 16 as this would mean that accounting for all leases (including service concessions previously accounted for as finance leases) is consistent.
We consider that the current approach to measurement (ie IAS 17 approach) should be retained. Processes are set up to account for the liability in this way. We do not consider it would be cost effective to change the current approach adopted. If it were to be implemented we would require more guidance – i.e. a re-written Code guidance chapter on PFI accounting.

The current IAS 17 based measurement should be retained as this would mitigate the impact on LA Finance Practitioners and cost to Councils. For example, most LA's who have PFI Schemes use specialised models which calculate the required accounting entries based on inputs. These models are based on IAS 17, so any consequential amendments would mean LA's having to pay for new / revised Models.
PFI schemes are different transactions in substance to leases. In general they represent a financing arrangement for the permanent acquisition of a new asset plus the provision of annual services and additional capital works. Further, it is arguable whether any annual indexation changes to the unitary charge relate to the asset rental element of the UC, or whether they relate to the elements representing current year services / costs. It is difficult to see how any valid information could be obtained to determine this - the authority knows what it has paid, but it does not know what the operator's actual costs have been, and it is the operator's predicted costs in the financial model which usually determine the split of the UC. It should also be recognised that the proposed approach could have significant consequences for funding of such schemes, given that the amount deemed to be the principal repayment each year is fundable by capital receipts. Depending on the assumptions made for the treatment of contractor's overheads in the initial analysis of the financial model, the total capital cost could be affected rather than just the timing. There is also the question of the cost of undertaking what are likely to be annual reassessments of extremely complex PFI models. This authority has 13 separate PFI schemes. We do not feel that the change in accounting for leases represents a barrier to continuing the current approach, given that it is simply an actuarial method of calculation which is currently used for both types of liability. It is also used more widely and is not specific to lease accounting. The Code clearly identifies it as a method of measurement in para 4.3.2.21, noting that PFI liabilities are reported as financial instruments but measured in the same way as leases. The wording currently in para 4.2.2.18 of the Code could simply move to section 4.3, instead of section 4.3 referring to using the same method as for leases.
I agree that the current approach to measurement is retained. If the amendment to the measurement of service concession arrangement (PFI/PPP) liabilities is adapted, the accounting treatment in the change of rate will be the similar to question 8, wherein the increase/decrease will be reflected to the carrying amount of the right to use asset. As the asset is carried at current value, the change in the rate of lease payment hasn't got any bearing with its value. Therefore the same explanation as in question 8 will be true. Additionally, the liability was recognised in order to reflect the right to use of the asset and the rate used at the time is the incremental rate of borrowing to the authority. This will be more in line if the authority had constructed the asset as it will be most probably be funded from borrowing. Therefore the rate used in the recognition of the liability is closer to what it would cost the authority. I suggest that the current disclosure for PFI/PPP arrangement is retained wherein the change in the rate only affects the service proportion and only kept as a memo account.
We don't believe there would be a benefit in line with the cost that would be incurred to review PFI accounting treatment as this often involves external PFI specialists whose services command a premium. It may also involve trying to establish information from more than a decade ago to rework the PFI calculation as PFI contracts are usually long term contracts that started many years ago.

However, if the approach were simply to recalculate the lease liability as each annual payment is made with the appropriate inflationary increase, this may already be built into the PFI models. What we are keen to avoid is a full-scale rework of accounting for PFI contracts. Even if the changes to the standard are minimal and the models incorporate the new requirements, by virtue of adopting a new accounting standard there may be significant audit scrutiny on PFI contracts for models that have been in place for a number of years that satisfy IFRS accounting requirements but can require a large amount of resources (financial and staff time) to dissect the initial information included in the model.
[The Council] consider[s] that retention of IAS17 provisions would maintain consistency of accounting treatment, minimise the impact on practitioners and should not impact on the quality of financial information provided to users
The Authority fully supports the current accounting treatment and recognition approach.
This will be consistent with the wider public sector and the private sector, and there are no special circumstances requiring a delay. In order to meet the 31st March 19 deadline, confirmation from CIPFA/LASAAC before the end of October 2018 would be very much appreciated as we are already putting arrangements in place and do not want to have to repeat steps due to a change in requirements.
This will ensure the future liability is adjusted every year to take account of RPI changes. This will give a more accurate reflection of the actual future liability.
PFI is in substance a lease liability then there should be consistency in accounting.
Unsure of benefits of changing approach.
Since a PFI liability is in substance a lease liability, the accounting should be the same. Also, retaining the provisions of IAS 17 for certain transactions but deleting it for others would introduce additional complexity.
As an authority we would prefer to retain the current provisions in s 4.3.
It would be confusing to adopt one standard for certain transactions and another for others. Using IFRS 16 for all allows a more consistent approach and after all PFI liabilities are lease liabilities.
Approach is practical and consistent with current practices.
The agree / disagree option is unclear here - we agree that the use of IAS17 should be retained as a measure of service concession arrangements, ie no annual re-measurement in order to minimise impact on practitioners for potentially immaterial adjustments
It seems that the current approach (IAS 17) is more manageable in that the lease liability would not have to be recalculated, with the attendant complicated adjustments to PFI accounting models that that might entail. Moreover, if the standard is to be based on IFRS16, how should the lease liability be re-measured where changes in contract payments are determined by a range of factors not one index?
Current calculations for the council indicate that increasing the liability as a result of changes to inflation which, when applied and discounted, do not materially alter the value of the outstanding liability sufficiently to support the change of the standard from IAS 17 to IFRS 16. The models supporting the PFI's are not aligned to changes suggested by IFRS 16 and therefore will pose a challenge and potential cost to the authority to amend the models.

Clarification as per question 8 above is required. Most PFIs are increased annually to reflect a movement in the indexed element of the unitary charge, whereas the cash flows will change annually, this is only to reflect a present value. Adoption of the CIPFA/LASAAC proposal would lead to significant complexity especially where only an element of the Unitary charge is indexed. Please confirm that where the indexing only relates to the service element of the Unitary charge there would be no change to the PFI liability on the balance sheet if adopting the CIPFA/LASAAC proposal.
As the liability is treated in the same way as a lease liability then it makes sense that the requirements should be aligned.
We are of the opinion that allowing extra time would give more chance to understand the challenges involved from the corporate sector's adoption and would therefore be preferable. The earlier that finalised interpretation guidance is issued the easier the introduction will be for practitioners.
We believe that the valuation of the PFI lease should remain the same unless subject to a contract change notice.
We would prefer to retain the current IAS 17 provisions
To reduce the burden on authorities it would be preferred if the existing approach was maintained providing consistency and would not impact on quality of financial information provided to readers of the accounts
To keep consistency with IFRS 16 superseding IAS 17 make the changes now.
As these schemes are measured in the same way as leases, keeping them in line with the new arrangements will lead to consistency. However there is the added complication of remeasuring the liability each time there is a change in cash flows (eg with RPI changes).
We think the current approach to measurement should be retained. CIPFA/LASAAC's new proposal could involve a significant increase in workload for those contracts with a high volume of inflationary indicators in the operational model.
Confidential Respondents
Retention of IAS 17 provisions maintains consistency of accounting treatment and minimises impact on practitioners and should not impact on the quality of financial information provided to users.
Preference to retain IAS17. This would not lead to any adverse impact on the quality of financial information for users and would provide consistency in measurement across the contract of a material and sensitive element of the Council's asset base.
To be consistent with the accounting for leases.
We disagree as all projects would have an RPI or inflation uplift and current proposals would require an annual remeasurement which will be onerous given the small change. This will create more work for authorities and auditors for an immaterial change (but will attract attention as the figure itself will often be material). Authorities also have developed models for PFI accounting – based on real uninflated figures - and these would need to be amended – possibly at a cost if the model was commissioned externally. As the liability is often material, even a small change would draw attention of auditors and create more work.

Retention of IAS17 provisions would maintain consistency of accounting treatment and minimise the impact on practitioners and should not impact on the quality of financial information provided to users.
Firms and Audit Bodies
In our view, it is counter-intuitive to retain an accounting treatment based on an accounting standard which is no longer extant and which was replaced because it was considered not fit for purpose. The two reasonable approaches would be to follow IFRS 16 or IFRS 9, both of which would require service concession liabilities to be regularly updated as cash flows change. In our view, IFRS 16 is the more appropriate of these two approaches as the nature of the agreement is akin to a finance lease.
On the grounds of consistency of approach. The fact that the arrangement is a service concession should not lead to different accounting for that lease.
We agree with the proposals for aligning the accounting of service concession arrangements that contain a lease with IFRS 16. We think the explicit guidance on variable lease payments linked to an index or rate is going to provide more relevant information about the true extent of public sector borrowings. We consider that the adoption of IFRS 16 is an opportunity for CIPFA to simplify and further align the accounting treatment for service concessions with IFRS rather than relying on a 'mirror-image' of guidance for operators of public-to-private service concession arrangements. As IFRS 16 changes the definition of a lease and provides new guidance on applying the definition, including guidance on separating components of a contract, a local authority could look to IFRS 16 rather than IFRIC 12.
Given the simultaneous withdrawal of IAS 17, we agree with the proposed consequential amendments for measuring service concession arrangement liabilities in accordance with IFRS 16
The current approach of measuring liabilities under service concessions using the finance lease accounting rules of IAS 17 means that the initial liability should be calculated using real cash flows and increases in the minimum lease payments resulting from indexation are accounted for as contingent rents. In our experience there are inconsistencies across the public sector in that some PFI accounting models have been constructed using nominal cash flows based on an assumed inflation rate over the life of the arrangement. We believe that accounting for PFI liabilities would be improved by moving to the approach set out in IFRS 16. This is particularly important given that most PFI/PPP schemes are fully or partially indexed. The application of IFRS 16 to grantor accounting for service concessions will also clarify the basis for recognising the initial asset and liability on new schemes, which has always been a difficult area for practitioners and auditors. Under IFRS 16, remeasurements of the lease liability adjust the carrying value of the right of use asset, although the standard is silent on the treatment of remeasurements under the valuation model – see Question 8). If the Code is to apply IFRS 16 to accounting for liabilities under service concessions then it also needs to provide clarity as to where the corresponding entry for any remeasurements of the liability should be posted.
It would be inconsistent to move from IAS 17 for leases but retain it for service concession arrangements. Also, annual remeasurement is likely to lead to a more accurate liability figure.
Others
TM Advisor

Yes. Since a PFI liability is in substance a lease liability, the accounting should be the same. Also, retaining the provisions of IAS 17 for certain transactions but deleting it for others would introduce additional complexity.
TM Advisor Consider that retention of IAS17 provisions would maintain consistency of accounting treatment and minimise the impact on practitioners and should not impact on the quality of financial information provided to users.
Representative Body To reduce the burden on authorities it would be preferred if the existing approach was maintained.