

Code of Practice on Local Authority Accounting in the United Kingdom – Housing Revenue Account Tenancies and Leasing Standards and COVID-19 Related Rent Concessions

Audit Scotland response

Is the secure tenancy for tenants within local housing authorities a lease for accounting purposes?

Q1 Do you agree with CIPFA LASAAC's conclusions that a secure tenancy for housing tenants in substance represents a lease? If not, why not? Please provide a reason for your response

Yes – we consider on balance that it is reasonable to consider a tenancy agreement to be in substance a lease for accounting purposes.

Q2 Do you agree with CIPFA LASAAC's conclusions that a secure tenancy for housing tenants transfers substantially all the economic benefits from the use of the asset to the housing tenant? If not, why not? Please provide a reason for your response

We believe it could reasonably be argued that tenants of social housing do not have economic benefits transferred to them. The term 'economic benefits' normally relates to the right to generate a financial return. Although tenants can sub-let, we view that as ancillary to the arrangement. It could therefore be considered that the nature of the benefits transferred to social housing tenants is predominantly non-economic.

Q3 Do you agree that other forms of housing tenancies also in substance represent a lease? If not, why not? Please provide a reason for your response.

We are not aware of any form of tenancy agreement that would not in substance be considered a lease for accounting purposes.

Q4 Do you agree that secure housing tenancies do not meet the definition of a lease under IAS 17 Leases and that there is no further need to specify an accounting treatment in the Code for any other forms of tenancy? If not, why not? Please provide a reason for your response.

We agree that IAS 17 applies only where the lease is for 'an agreed period of time' and that does not apply in the case of open-ended tenancy agreements.

If the secure housing tenancy meets the definition of a lease, is it a finance or an operating lease?

Q5 Do you agree with CIPFA LASAAC's conclusion that for secure housing tenancy agreements the lease is an operating lease? If not, why not? Please provide a reason for your response

We agree that operating lease is the appropriate classification for secure tenancy agreements. This is particularly the case in Scotland, where right-to-buy legislation was repealed in 2014.

Q6 Do you agree with the proposed interpretation relating to housing tenancies as leases? If not, why not? Please provide a reason for your response.

We believe that the proposed interpretation will ensure consistency of treatment and therefore agree with it.

Q7 Do you agree with CIPFA LASAAC's conclusion that all other forms of tenancies are also likely to be operating leases? If not, why not? Please provide a reason for your response

We believe that other forms of tenancy are likely to be operating leases.

Dependent on the classification decided on in section C, what reporting requirements will be needed by the users of local authority financial information relating to housing tenancies and the related assets?

Q8 Do you agree with CIPFA LASAAC's conclusion for the reporting requirements in relation to the information requirements for the reporting of housing tenancies? If not, why not? Please provide a reason for your response.

We agree that required information is either disclosed or is not relevant for tenancy agreements.

Q9 What are your views on the usefulness of the IFRS 16 Leases disclosures for operating leases (included in the Annex to the Technical Appendix) when applied to housing tenancies?

We do not believe that the IFRS 16 disclosures in respect of tenancy agreements provide useful information to users. We therefore agree with the proposed interpretation to disapply them.

Impact on the 2020/21 and 2021/22 Codes of COVID-19-related rent concessions

Q10 Do you agree with CIPFA LASAAC's approach to the amendments to the 2021/22 Code for COVID-19-related rent concessions? If not, why not? Please provide a reason for your response

We are not aware that COVID-19-related rent concessions are a significant issue for local authorities but we agree with the proposed application of the amendment to FRS 102.

. Q11 Do you consider that it would be necessary to issue an update to the 2020/21 Code for COVID-19-related rent concessions? If yes, why and if not, why not? Please provide a reason for your response.

We are not aware of any reason to issue a code update for 2020/21 but would have no objection if there was evidence from local authorities that this was required.

Further guidance

Q12 Are there any areas within the Code where additional guidance or improvements to the Code would be helpful? Please support your answer by giving details of the amendments you would suggest.

We believe that the 2020/21 accounting code should require COVID 19 support payments made by a local authority on an agency basis to be disclosed in a note to the financial statements.