



HM TREASURY

Financial Reporting Advisory Board Paper

IFRS16 (Leases) impacts on the National Accounts – ONS paper

Issue:	This paper outlines how the ONS has carried out an exercise to broadly identify the transactions in the statistical accounts and the key survey data sources which are likely to be impacted
Impact on guidance:	The Consolidated Budgeting Guidance may be updated in line with the final agreed position on treatment of leases in respect of the introduction of IFRS 16 in National Accounts
IAS/IFRS adaptation?	IFRS 16 to be adopted in the public sector
Impact on WGA?	IFRS 16 to be adopted in the public sector
IPSAS compliant?	IFRS 16 is not IPSAS compliant. IPSASB have a leases project with an Exposure Draft issued, with comments due by 30 June.
Interpretation for the public sector context?	To be agreed
Impact on budgetary and Estimates regimes?	The treatment of leases in budgets and Estimates still be agreed
Alignment with National Accounts	IFRS 16 does not align with the National Accounts which maintains the operating and finance lease distinction
Recommendation:	The Board note the progress on the ONS work plan to consider the impact of IFRS 16 implementation in the public sector
Timing:	Ongoing with a planned IFRS 16 implementation date of 1 April 2018

Background

1. IFRS 16 (Leases) replaces IAS 17 and related Interpretations. IFRS 16 was adopted by the EU in December 2017 with an effective date of 1 January 2019. ONS has been considering the impact of IFRS16 on economic statistics. Two aspects of the potential impacts of IFRS16 are being focused upon particularly:
 - *Potential impacts on National Accounts aggregates, for both balances and flows.*
 - Potential impacts on public sector finance statistics, including those relating to the headline fiscal measures.

Work undertaken to date

2. ONS has carried out an exercise to broadly identify the transactions in the statistical accounts and the key survey data sources which are likely to be impacted.
3. A review was undertaken (including consultations with a limited range of key survey respondents). This review concluded that respondents would be unable to report on an ESA basis (given the difficulties and costs of dual reporting).
4. A bid has been made to the Economic Statistics Centre of Excellence (ESCoE¹) to secure expert resource to make methodological proposals on how ONS might adjust its source data (which is on a commercial accounting basis) to a best estimate for an ESA 2010 presentation at a macro level. This work is focusing on the private sector. ONS has put this work out to tender and work is expected to commence soon, with an expectation that results from this work will be available at end-August 2018.
5. The Economic Statistics Classification Committee (ESCC) reviewed the classification of a standard model for current government property leases. The property lease was a Full Repair and Insure (FRI) lease and ESCC concluded that as the key risks and economic rewards (relating to repair and maintenance risks/costs) were borne by government as the lessee, the lease agreement should be considered to be a financial lease for statistical purposes.
6. Most of these leases are currently being treated as operating leases under IAS17 (and therefore also within Public Sector Finances and in the National Accounts). The implication of this decision is that ONS will need to revise some historic lease data.

¹ ESCoE is made up of a consortium of leading institutions led by the [National Institute of Economic and Social Research \(NIESR\)](#) with [King's College London](#), innovation foundation [Nesta](#), [University of Cambridge](#), [Warwick Business School](#) (University of Warwick) and [Strathclyde Business School](#). The researchers and institutions in this partnership have a long-standing history of collaboration with one another and with the ONS.

7. As IFRS 16 will introduce a number of significant areas of divergence with the statistical standards, ONS therefore has undertaken to working closely with HM Treasury in identifying methods which will allow government leases to be reported in accordance with both business and statistical reporting standards. Any such methods would need to apply not only to the upcoming implementation of IFRS 16, but also to existing and historic property leases where government has accepted in full the insurance, repair and maintenance risks related to the leased assets.
8. Meetings between ONS and HM Treasury have been held to discuss activities that HM Treasury would need to carry out to identify the impact of IFRS 16 on the public sector and source the supply of appropriate data going forward.

Next Steps – HM Treasury

9. HM Treasury plan to engage with property lease experts (such as those from Crown Estate Services) to advise on (i) when repair and maintenance clauses such as those contained in current government property leases would have been standard inclusions in property leases, (ii) whether all such property leases would have been recorded as operating leases under IAS17. This is required in order that the ONS may make decisions on how to revise historic government property lease data.
10. HM Treasury will identify the baseline position for public sector leases. This will require, at a minimum, identifying the total value of leases by at least subsector and lease type, but to be most effective detailed departmental group data is needed.
11. Going forward, HM Treasury will establish the departmental budgeting treatment of leases for 2019-20 and beyond. This will help inform what data will be available from departments to compile lease data on an ESA2010 basis.
12. HM Treasury will consult with ONS to agree a method that can be used to compile future lease data for the public sector on an ESA2010 basis. The methodological approach taken is likely to depend on the agreed budgeting guidance for leases, but whatever approach is taken HM Treasury will need to be responsible for sourcing the required data. ONS accepts that any approach is likely to be based on a number of assumptions but this should be acceptable subject to the approval of the ONS Methods Advisory Committee, and as long as the method is well documented, transparent and data based.

Next Steps – ONS

13. ONS will progress the work, with ESCoE and the successful external contractor, to identify appropriate adjustments to make to ONS survey data when compiling the private sector elements of the National Accounts. It is anticipated that the necessary resource will be obtained by mid-June 2018 and the work completed by the end of August 2018.
14. ONS will work with HM Treasury and the property lease experts identified by HM Treasury to establish a method by which ONS can revise its historic data in order to correctly record FRI

property leases as finance leases (instead of their current probable recording as operating leases).

15. ONS will consult with HM Treasury to agree a method that can be used to compile future lease data for the public sector on an ESA2010 basis. ONS will then work with HM Treasury to implement these methods and data sources within the Public Sector Finances and National Accounts. ONS will be responsible for publishing an article on any new methodological approach to the recording of leases in Public Sector Finances and National Accounts.