20 April 2021

Ian Carruthers
Chair
International Public Sector Accounting Standards Board
www.ifac.org

Dear Ian

Auckland Council Submission to IPSASB Exposure Draft 75 *Leases* and Request for Information

Thank you for the opportunity to comment on the IPSASB Exposure Draft 75 *Leases* and Request for Information relating to concessionary leases and other arrangements similar to leases.

Auckland Council is Australasia's largest local government entity and is made up of the Council, and six subsidiaries, one of them being a for-profit entity. We invest heavily in infrastructure and many of our decisions will impact on Auckland's future generations.

We have provided our responses to the specific matters for the respondents in the appendix to this letter along with our additional comments for the IPSASB's consideration. In summary, we are supportive of IPSASB's decision to pursue a two-phased approach in addressing the need for a new lease accounting standard as well as addressing other lease related issues in the public sector.

We hope our responses and comments are helpful in aiding your decision-making process. Should you have any queries relating to the responses, please do not hesitate to contact Alvin Ang at the details provided below.

Yours sincerely

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Appendix 1

Specific Matter for Comment 1:

The IPSASB decided to propose an IFRS 16 aligned Standard in ED 75 (see paragraphs BC21 – BC36). Do you agree with how the IPSASB has modified IFRS 16 for the public sector (see paragraphs BC37 – BC60)? If not, please explain your reasons. If you agree please provide any additional reasons not already discussed in the Basis of Conclusions.

We broadly agree with how the IPSASB has modified IFRS 16 for the public sector as well as the IPSASB's decision to pursue a two-phased approach to address lease issues relating to the public sector. This would allow Public Benefit Entity (PBE) preparers to keep up with for-profit entity preparers. Further, this would address accounting standard inconsistencies across group entities, which Auckland Council Group is currently facing with our subsidiary 'Ports of Auckland' applying NZ IFRS 16. The IPSASB can then consider concessionary leases and other arrangements similar to leases in phase 2.

We recommend the Board to consider the following suggestions to ED75:

<u>Explicitly exclude zero or nominal consideration leases from the scope of the ED</u>

As there is no consideration, or the consideration exchanged is insignificant, the separation of the lease component requirement cannot be applied to these arrangements.

<u>Clarify the difference between concessionary and nominal consideration leases</u>

Both leases are below market value and nominal leases are not clearly defined in the ED. We suggest that the Board considers quantifying the value and the basis of a nominal lease. This is because rent rates in different regions are charged on a weekly, monthly, and yearly basis. From our perspective, we believe rent below US$1,000 per annum is nominal.

<u>Guidance on discount rate for public sector</u>

We note that IPSASB decided this issue is not public sector specific because private sector entities encounter similar difficulties in determining the implicit rate in the lease, and the incremental borrowing rate. We believe it is relatively challenging for entities like charities or not-for-profit organisations to have access to borrowings, let alone obtaining the incremental borrowing rate to be used in valuing their lease contracts. We suggest the Board includes some guidance within the standard, such as reference to a risk-free rate of government bonds to assist preparers operating in these sectors.

<u>Specifying monetary amount for low value assets</u>

We suggest the Board to follow IASB's path to include US$5,000 as the threshold for low value assets. The use of materiality in relation to the preparer's financial statements could create inconsistencies given different preparers and auditors have varying risk appetites towards materiality. The inclusion of monetary value would eliminate any debate, and reassessment of threshold for every reporting period. We believe it is not economically beneficial to put excessive focus on low value assets.

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Specific Matter for Comment 2:

The IPSASB decided to propose the retention of the fair value definition from IFRS 16 and IPSAS 13, *Leases*, which differs from the definition proposed in ED 77 *Measurement* (see paragraph BC43 – BC45). Do you agree with the IPSASB's decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

We agree with the proposal to retain the fair value definition from IFRS 16 and IPSAS 13.

Specific Matter for Comment 3:

The IPSASB decided to propose to refer to both "economic benefits" and "service potential", where appropriate, in the application guidance section of ED75 on identifying a lease (see paragraphs BC46 – BC48). Do you agree with the IPSASB's decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis of Conclusions.

We agree with IPSASB's decision to refer that both "economic benefits" and "service potential" be consistent with *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

Appendix 2

Request for Information (RFI)

Type of lease	Nature	Characteristics	Accounting treatment
Concessionary	Auckland Council (AC) currently has 1,191 concessionary leases as well as zero or nominal consideration leases. The contracts take the form of either a lease or license to occupy. The properties are mainly occupied by the community groups and not-for-profit organisations to provide services such as recreational, educational, sporting, cultural and arts, migrant services etc. to the community. These community services are similar in nature to those normally provided by local councils in New Zealand.	The characteristics for both concessionary leases and zero or nominal consideration leases are similar except for the tenure and annual rent amount. <u>Concessionary</u> Tenure: 1 to 70 years Annual rent: $10,000 to $25,000 per annum <u>Zero or nominal</u> Tenure: 1 to 1,000 years Consideration: $0 to $1,000 per annum Common characteristics: • The lease terms are generally renewable • AC has the discretion to review the lease consideration / license fee from time to time, up to current market rate, or a proportion of the market rate • The use of premises is normally restricted and explicitly stated in the agreement or license to occupy - i.e., hours of operation, number of people using the premise at the same time, number of functions allowed and timing, noise levels etc. • Generally, the tenants do not enjoy exclusive use of the premises	Lease income from these leases is recorded at the rental amount receivable. The following disclosure was made in our recent annual report for the year ended 30 June 2020. As part of delivery of community services to the Auckland region, the council leases property to community groups for no or minimal consideration. During the year, 1,214 community and sporting groups leased land on the council parks and reserve land or council-owned premises for between $0 and $10,000 per annum (2019: 1,171 groups with leases between $0 and $10,000 per annum). Lease income from these leases is recorded at the nominal rental amount receivable.
Zero or nominal consideration			

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		• AC's approval would be required should the tenant wish to hold functions outside operating hours • Anything outside the required use must be approved by AC • Tenants are generally not allowed to build additional buildings or alter the appearance of the premise without the written consent of AC • Some tenants need to provide their annual report within 3 months of year end • If tenants commence operating commercially for profit, AC is entitled to review rent or license fee • Some tenants are required to allow public access without charge • Tenants are required to hold public risk insurance cover for an agreed amount	
Access rights	**Easements** AC has Pedestrian and Cycle Access Way easements over land owned by outside parties (e.g., 18 Elm Street, Avondale, Auckland). **Access rights** To land where train stations have been built (Auckland Transport)	<u>Easements with consideration involved</u> For example, the purchaser is obligated to construct pedestrian and cycle access way within an agreed timeframe to the standards stated in Auckland's Transport Code of Practice. AC has been given rights, akin to a grantor, to access the area upon completion of construction, which includes the right to have any easement area kept clear of obstruction and to	<u>Easements with consideration involved</u> Easements normally come with a one-time fee with no expiry date, e.g., one-off fee of $750,000 for access rights. The costs relating to easements are recognised as intangible assets and recorded at

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		install and maintain lighting and information signage relating to the easement area. AC must pay an agreed amount as consideration for the easement once the easement is registered. Similar arrangements are made for right to lay pipes for water or sewage, right of access to light and air and below earth support structures. <u>Easements without consideration involved</u> For example, in a subdivision of land to build residential housing, the developer would build infrastructure assets under the ground. Generally, these assets and the rights to access them are vested to AC, and there is no consideration involved. The easement to access these infrastructure assets are registered to the land title. <u>Access rights</u> The access rights on land where train stations have been built are owned by Kiwirail, but Auckland Transport have the rights to use the assets under agreement with Kiwirail.	cost. In subsequent accounting periods, they are tested for impairment on an annual basis. <u>Easements without consideration involved</u> We record the vested assets as our PPE in the financial statements. We do not record the easements relating to these assets as there is no financial value associated to them. <u>Access rights</u> These are considered to be long-term land leases. The costs relating to these access rights are capitalised upon initial recognition as intangible assets, and amortised

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			using the straight-line method over the life of the underlying lease (ranging from 55 to 85 years).
Right-of-use	<u>Own-your-own unit (OYO) scheme</u> This is a scheme to provide housing for older people	One and two-bedroom units are sold to the elderly at between 50 and 80 percent of the market value, subject to eligibility criteria. When buying the unit, each owner enters into a buyback agreement, stating that if they decide to sell the unit, it must be offered back to AC. This arrangement allows buyers of these units the full right of use of the properties. However, should the buyers decide to move out, or in the event that they have passed on, the property has to be offered back to AC as noted above.	AC recognises revenue for the sale of OYO units in the statement of comprehensive revenue and expenditure with its corresponding costs relating to the properties as an expense.
Social housing	Haumaru Housing for Older People (63 retirement villages across Auckland Region which includes 1,412 housing units)	Prior to 1 July 2017, AC managed the provision of social housing services internally. AC intends to grow the social housing stock and improve the quality of community housing and services provided to older people. To achieve this outcome, AC established a Joint Venture Limited Partnership (LP) with the Selwyn Foundation to manage housing for older people, a portfolio that comprises 1412 housing units on AC's land.	AC recognises the rental income earned by the LP in relation to the properties and a corresponding management fee expense for the same amount less cost of capital renewals of the properties under the portfolio incurred by the Limited Partnership.

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		AC leased its portfolio of properties to the limited partnership for $1 per annum. The LP in turn uses the properties to provide social housing to the elderly. The lease of Housing for Older People portfolio to the LP has an initial term of 25 years, with three rights of renewal for further terms of 25 years each.	
Sharing of properties without formal lease contract	Community centres run by local communities Community halls	AC has several properties used as community centres in Glendene, Massey, Blockhouse Bay, Glen Eden and Titirangi. The community centres are usually run by local community and overseen by a voluntary Governance Committee. Community halls are often run by AC, but are used by the community for extra-mural activities at little or no cost e.g., dancing lessons, martial arts etc.	The accounting treatment is similar to concessionary and zero/nominal consideration leases stated above.
Others	GridAKL, administered by Auckland Unlimited Limited (AUL) These are hubs of shared workspaces at: - Madden Building - Mason Building - Lysaght Building	GridAKL is a part of Auckland City's Wynyard Quarter Innovation Precinct that provides a common workspace for entrepreneurs and Start Up businesses to connect, share ideas and access the tools they need to help them grow.	<u>Madden Building and Mason Building</u> These buildings are leased to a shared workspace provider, that acts as an operator and further sub-leases space

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		On top of providing a common workspace, GridAKL also offers: • Mentoring, support and specialist advisory services • Connections with business advisors, experienced founders, entrepreneurs, other Start Ups, corporates, tertiaries, social enterprises and community groups • Professional front-of-house / concierge and administrative support • Access to event spaces and tech events	to tenants. AUL earns rental income from the operator, with the objective to break even and not generate a commercial return. <u>Lysaght Building</u> The Lysaght Building office spaces are rented out to tenants directly by AUL on a monthly membership fee basis. This leads to many members that rent out space at the same time. It also earns revenue by charging members for parking, events and catering. Again, with the objective to break even and not generate a commercial return.