

PROPOSED STATUTORY BOARD FINANCIAL REPORTING STANDARD GUIDANCE NOTE 9

Accounting for Buildings, Building Improvement Works, and Infrastructure on Short-term Land Lease

SB-FRS Guidance Note 9 *Accounting for Buildings, Building Improvement Works, and Infrastructure on Short-term Land Lease* applies to Statutory Boards for annual periods beginning on or after 1 January 2020.

Comments to be received by 30 September 2020.

This exposure draft on SB-FRS Guidance Note 9 *Accounting for Buildings, Building Improvement Works, and Infrastructure on Short-term Land Lease* is issued by the Accountant-General's Department Technical Directorate for comments only and does not necessarily represent the views of the Directorate. The proposals may be modified in the light of the comments received before being issued as a Statutory Board Financial Reporting Standard (SB-FRS).

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explaining the problem and providing a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by 30 September 2020 preferably by email to AGD_ASSB_Feedback@agd.gov.sg or addressed to:

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Statutory Board Financial Reporting Standard Guidance Note 9 *Accounting for Buildings, Building Improvement Works, and Infrastructure on Short-term Land Lease* is set out in paragraphs 1-7. All the paragraphs have equal authority. SB-FRS Guidance Notes are issued to standardise the accounting and disclosure requirements of Statutory Boards in specific areas and are to be complied with by Statutory Boards. These Guidance Notes rank behind SB-FRS and INT SB-FRS in terms of importance.

Statutory Board Financial Reporting Standard (SB-FRS) Guidance Note 9

Accounting for Buildings, Building Improvement Works, and Infrastructure on Short-term Land Lease

Objective

1. The objective of this Guidance Note is to provide guidance to Statutory Boards on the depreciation of assets (e.g. buildings, refurbishments, and infrastructure etc.) situated on land leased from the Singapore Land Authority (SLA) or other public sector agencies on short-term (i.e. one to three years) basis, but with useful lives that are longer than the stipulated lease term¹.

Scope

2. A Statutory Board shall apply this Guidance Note to the depreciation of assets situated on land leased from SLA or other public sector agencies to Statutory Boards on short-term (i.e. one to three years) basis, but with useful lives that are longer than the stipulated lease term.

Accounting for Depreciation of Buildings, Building Improvement Works, and Infrastructure on Short-term Land Leases

SB-FRS Requirement

3. According to SB-FRS 116 paragraph 32, a Statutory Board is required to depreciate right-of-use assets, e.g. buildings, refurbishments, and infrastructure, from the commencement date to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease term.

Accounting for Depreciation of Buildings, Building Improvement Works, and Infrastructure on Short-Term Land Lease

4. SLA may enter into short-term (i.e. one to three years) tenancy agreements with certain Statutory Boards. Similar tenancy agreements may also be entered into amongst Ministries and Statutory Boards. These tenancy agreements are usually subject to renewal after one to three years upon expiry of the agreements, based on the discretion of SLA or other relevant authority.
5. Statutory Boards which enter into tenancy agreements with SLA or other public sector agencies subject to renewal after one to three years may have assets

¹ SLA may enter into short-term (typically ranging from one to three years) tenancy agreements with certain Statutory Boards. Although the renewable of these tenancy agreements are not specifically stated in the lease agreements, SLA's practice is to renew these agreements over the expected useful lives of the assets.

RESTRICTED (NON-SENSITIVE)

situated on the allocated land with useful lives that are longer than the stipulated lease term. These assets include:

- (i) Buildings;
 - (ii) Building works and improvements;
 - (iii) Renovations; and
 - (iv) Infrastructure (e.g. sidewalks)
6. In applying SB-FRS 116 paragraph 32 to assess whether the assets should be depreciated from the commencement date to the earlier of the end of the useful lives of the assets or the end of the stipulated lease term, Statutory Boards are to apply judgement to determine the expected lease term. For example, Statutory Boards can consider the following factors (non-exhaustive and in no particular order of importance):
- (i) Land use planning approval from Urban Redevelopment Authority (URA) and SLA – Statutory Boards’ approved tenure for use of the site on which the buildings/infrastructure are built, which can be found in Statutory Boards’ submission to seek land use planning approval from URA and SLA, could be used as a basis for determining the expected lease term.
 - (ii) Historical land lease renewal experience with SLA or other relevant public sector agency landlord – Whether there is a high probability based on past land lease experience that the lease will be renewed after the stipulated lease term.
 - (iii) Land zoning plans - Whether the allocated land may be re-designated by URA for other purposes before the end of the assets’ useful lives. Statutory Boards can refer to the URA Master Plan, which is publicly available. While the Master Plan is subject to review every five years, land use zoning for purpose-built developments e.g. Community Centres (CCs) and hospitals are unlikely to change unless affected by redevelopment plans. Where redevelopment plans directly affect Statutory Boards’ buildings/infrastructure e.g. require relocation, Statutory Boards would have been made aware of the implementation timeline and can factor this into consideration.
 - (iv) Any other information that may indicate that the lease may not be renewed upon the expiry of the lease term.

Effective Date

7. This Guidance Note is operative for financial statements covering periods beginning on or after 1 January 2020. Earlier application is permitted.

Examples

Historical Land Lease Renewal Experience with SLA

Scenario:

Statutory Board A's leasehold buildings are situated on land leased from SLA on a three-year term. The building and building improvements carried out by Statutory Board A have a useful life of ten years, which is within Statutory Board A's approved tenure for use as stipulated in its submission to seek land use planning approval from URA and SLA. Based on past land lease renewal experience with SLA, the management of Statutory Board A is confident that the lease term of the land will be renewed by SLA upon the three-year lease expiry. To date, nothing has come to Statutory Board A's attention that SLA will not renew the lease term, or that its buildings will be affected by future redevelopment plans.

Application:

Statutory Board A should depreciate its buildings and improvements over ten years, rather than SLA's stated lease term of three years.

Land use Planning Approval from URA and SLA

Scenario:

Statutory Board B entered into a new tenancy agreement with SLA on a three-year term. Statutory Board B's building and building improvement works on the land leased from SLA have a useful life of thirty years. Statutory Board B has no past land lease renewal experience with SLA for this tenancy agreement. Statutory Board B refers to its past submission to seek land use planning approval from URA and SLA, which stated that approval has been obtained from the aforementioned authorities for Statutory Board B to use the land over its proposed tenure of thirty years. To date, nothing has come to Statutory Board B's attention that its buildings will be affected by future redevelopment plans.

Application:

Statutory Board B should depreciate its buildings and building improvement works over thirty years, rather than SLA's stated lease term of three years.