

## **LEASING POLICY (UNDER IFRS16)**

### **Background**

IFRS16 replaces IAS17 as the leasing standard and will be implemented from 1 April 2024. Under IFRS 16, the differentiation between finance and operational leases no longer exists and all leases are required to be assessed to ensure their correct accounting treatment.

### **Assessment of leases**

- The deminimis level to apply to leases is £5,000 which is in line with the capital expenditure level. The deminimis level applies to individual assets rather than the cumulative value of assets (for example individual photocopiers) and is based on value when new.
- Short-term leases (less than 1 year) are not to be assessed under the accounting standard.
- All leases for more than 1 year and over the deminimis level are to be identified as leases.

### **Identification of a lease**

In order to identify a lease, there needs to be the following conditions that have been met:

- There is a contract in place
- A specific asset must be identified
- Is economic benefit transferred for the period of the contract?
- Is the asset use able to be directed for the period of the contract?
- Are you the exclusive operator of the asset?

### **PFI Schemes policy**

Existing PFI schemes are already assessed under IFRIC12 and are shown on the balance sheet. The assets are valued in accordance with the accounting policies in relation to all Property, Plant and Equipment.

The PFI liability is also on the balance sheet and is the summation of the principle repayments due on the PFI assets over the remaining life of the PFI contract. The operating model for the PFI schemes requires an annual inflationary increase only to the service costs hence there is no requirement to recalculate the PFI liability. Where any PFI contracts are deemed to include inflation on all charges then as assessment on an individual scheme level will be undertaken to determine whether subsequent remeasurement of the lease liability is required.

### **Leasing Policy**

Where a lease has been identified, the following policy applies:

1. If a lease ends within 1 year of the transition date to IFRS16 then the arrangements are exempt.
2. The lease term is the length of contract set out in the lease agreement. Where there is a break clause in the lease, determine the likelihood of the lease being terminated and if this is likely then use the lease length up to the break clause date as the length of contract

3. If the implicit interest rate is included in the lease terms, then this is to be applied. If it is not included, then the borrowing rate will be the PWLB loan rate as at the date of the lease and the length of the loan rate will be lease term.
4. The lease liability is to be calculated by discounting the value of payments to be made over the lease term by the interest rate/borrowing rate.
5. Lease liability will be re-measured if there is a change in the lease term or a change in the option to purchase the underlying asset.
6. Depreciation will be calculated on the leased asset with the life of the asset being equal to the term of the lease.