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Sent: 04 November 2021 16:26
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Subject: IFRS 16

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Hi Molly, Alasdair

NOT RELEVANT

Sorry for the delay in sending you this, [REDACTED] and the week has flown by. As discussed earlier in the week I have provided some draft responses to the queries per your IFRS 16 letter. I am awaiting feedback from colleagues on my responses before we can send you something more official but in the meantime I hope this is of use, I recognise that the responses to 3, 4 and 5 are more of a placeholder until we get further clarity from HMT.

1. Budgeting treatment for current, continuing leases

[REDACTED]

It would be helpful if you could also confirm SG proposed reporting requirements / timescales for our continuing leases.

Existing lease arrangements transitioning across to IFRS 16 generates no CDEL impact and no budget entry should be made for the cumulative catch up to opening balances as this is ignored for budgetary purposes. Existing leases will then be required to follow the IFRS 16 budgeting treatment from implementation which will require the right of use asset to be depreciated and scored as ring-fenced RDEL and interest charge as RDEL. Annual cash payments on the lease will score as working capital movements.

2022-23 budgets will be set on a pre-IFRS 16 basis and an in year adjustment will be made to adjust capital and resource budgets at Main Estimates 22-23.

2. Budgeting for new leases

[REDACTED]

Thank you for your recent input to the IFRS 16 data commission. Entities will incur a CDEL charge equal to the right of use asset recognised in the entity's accounts at the commencement of the lease from 1 April 2022 for leases that are not subject to the low value and short-term expedients offered in the Standard

The UK Spending Review will be conducted on a IAS 17 basis.. Budgets will be adjusted for IFRS 16 via a technical reclassification exercise ahead of Main Estimates in 2022/23. This will involve completing a return for HMT containing the following information:

- Surrender RDEL for lease expenses on IAS 17 basis;
- Request CDEL for new leases and relevant changes to existing leases;
- Request ring-fenced RDEL for depreciation;
- Request RDEL for interest;
- Request other budgetary changes e.g. AME for peppercorn lease depreciation/market value impairments/capitalise dilapidation provision.

Budget submissions should be based on the current lease treatment.

3. Capital funding

[REDACTED]

[REDACTED]

The UK Spending Review will be published on the 27th October and will set out resource and capital funding for 22-23 to 24-25. As noted above, this will be prepared on the current treatment for leases and we expect to receive a capital adjustment at UK Supplementary Estimates to adjust for new leases that require capital budget.

Similarly, the Scottish Government 5 Year Capital Spending Review (CSR) was published in Feb 2021 and was set on a pre-IFRS 16 basis. The date for the Scottish Budget 2022-23 is 9th December and capital budgets are expected to be broadly in line with what was published in the CSR and will not be adjusted for IFRS 16 at this time. There will be a mechanism in

year to adjust capital budgets for leases but the practicalities of how this will work is yet to be finalised and will be in part dependant on direction from HMT as to how we will draw down additional CDEL cover for new leases.

4. Revenue impact

[REDACTED]

I recognise the impact that IFRS 16 will have on the savings assumptions but until we have clarity on how the future years capital funding will be adjusted for IFRS 16 and drawn down I can't provide a provide an answer at this time.

5. Cash management

[REDACTED]

HMT guidance : IFRS 16 Leases, Supplementary Budgeting Guidance, Dec 2020 notes that the annual cash payments on leases will score as working capital movements and is an adjustment to creditors for lessees, which is required to balance net cash requirements.

Thanks

Laura

Laura McDougall

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