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On Behalf Of [AccountancyServicesUnit@\[redacted\]](mailto:AccountancyServicesUnit@[redacted])
Sent: 22 December 2021 16:49
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Cc: [Beatriz.Sanchez@\[redacted\]](mailto:Beatriz.Sanchez@[redacted]) [Nicholas.Clarke@\[redacted\]](mailto:Nicholas.Clarke@[redacted])
[AccountancyServicesUnit@\[redacted\]](mailto:AccountancyServicesUnit@[redacted])
Subject: IFRS 16 reclassification exercise - response required by 14 January

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Dear all,

Please find below a commission regarding IFRS 16 Leases.

IFRS 16 Leases reclassification – 2022-23 budgets

We are required to respond to HMT to confirm budget requirements under IFRS 16, and to do this **we require a response from you by 14 January**. We apologise for this tight timescale, however we only received the initial request from HMT last week and have had to work through the detailed implications to ensure a consistent approach is being taken across the Scottish Government. HMT require this information to ensure that all data is included at Main Estimates 2022-23.

Budgetary Impact

This exercise is required to ensure that sufficient budget cover can be provided for all public bodies and to set the Scottish Government's leasing Estimate for 2022-23 onwards. HM Treasury have indicated that adjustments to this reclassification will only be granted in exceptional circumstances and therefore all public bodies should pay close attention to completing this exercise accurately and completely.

The key changes to budgets under transition will be:

- RDEL impact – removal of resource for operating lease annual payments, addition of resource for interest and depreciation charges associated with leases.
- CDEL impact – addition of capital budget for capitalisation of leases in the year they commence.

IFRS 16 Leases will be adopted by the public sector from 1 April 2022 and it has been previously agreed by HM Treasury that (i) budgeting treatment will follow the accounting changes, and (ii) that amendments to budgets will be handled as a reclassification exercise. In order to support this reclassification you are required to complete the attached template. Further guidance is set-out below.

IFRS 16 removes the distinction between operating and finance leases such that all leases, excluding low value or short-term, will be capitalised and on the balance sheet from 1 April 2022.

IFRS 16 applies to:	IFRS 16 does not apply to:
<u>Leases previously classified as operating leases</u> e.g. 5-year photocopier rental agreement, 15-year office block lease agreement.	Low value leases (not based on entity materiality but low value for all e.g. tablets, computers, telephones).
<u>Leases previously classified as finance lease</u> e.g. 10-year rental of specialised equipment with right-to-buy at end of term.	Short term leases (less than 12 months).
<u>Peppercorn lease</u> arrangements which should be valued at current or fair value not using a cost profile (unless the building meets the definition of a heritage asset – please ask for further guidance if you think this may be the case).	Service concession arrangements (accounted for under IFRIC 12).
<u>Right-of-use assets</u> i.e. the right to use a specific asset given by another party within a contract that is not termed a 'lease' e.g. a contract for delivery of goods where the supplier must use a specific type of vehicle, which due to the nature of the vehicle cannot be used for other customers. Further information on identifying ROU assets can also be found in the HMT Treasury application guidance issued in December 2020.	Licences of intellectual property.

Template Completion Guidance

Please note additional guidance notes are available on the property and non-property tabs of the template.

Table 1

Table 1 should be used to set out the total value of operating lease annual payments which (i) are already planned to score to RDEL in 2022-23 onwards, and (ii) will be brought on balance sheet from 1 April 2022.

Please ensure that these are broken down into new and existing leases.

The **Existing** lease amount should reconcile to the amount to be disclosed in your 2021-22 annual accounts operating leases note (amount due in one year). Don't forget to include an estimation of the cost of expected new leases in 2022-23

onwards where they would previously have been operating leases in the **New** leases line.

Table 2

Table 2 should be used to:

- Set out required CDEL cover for any **new** leases expected to be signed in 2022-23 onwards. The CDEL charge will be equal to the net present value of all payments due on the lease.
- Set out the required RDEL cover for depreciation due on any **new and existing** leases.
- Set out the required RDEL cover for interest payments due on any **new and existing** leases.
- Set out the required AME cover for depreciation on **new and existing** peppercorn leases.

The net present value of new leases should take into account all expenditure flows including any costs to be incurred at the end of a lease e.g. dilapidations. For long term leases a net present value calculation should be completed using the updated nominal rate of interest of 2.2% using the format as per the example on page 34 of the HMT Treasury application guidance.

Please note that we will not be able to extend the deadline of 14 January 2022 and nil returns are required. We would also be grateful if you could confirm whether you are indeed the correct contact for this commission or whether there is a more appropriate alternative contact that this commission should be directed to.

If you have any queries on the template, or on the implementation of IFRS 16, these should be directed to the mailbox AccountancyServicesUnit@gov.scot in the first instance to ensure that someone can respond to your request promptly. You could also cc any requests to myself, Lorna Bocquet (lorna.bocquet@gov.scot) and Alison Douglas (Alison.douglas@gov.scot) however we may be slower to respond over the holiday period.

Kind regards

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