

TREASURER'S INSTRUCTION
FINANCIAL MANAGEMENT ACT 2016
LEASES

EFFECTIVE DATE

1 July 2019

AMENDED DATE

20 July 2020

SCOPE

This Treasurer's Instruction applies to all agencies listed in Column I of Schedule I, Part I in the *Financial Management Act 2016* unless otherwise exempted or provided for under the provisions of the Act.

APPLICATION

At all times.

OBJECTIVE

To provide direction on the lease approval, accounting and reporting requirements for lessees.

To provide direction on lease accounting and reporting requirements for lessors.

INSTRUCTION**Leases**

19.1 Section 53 of the Act provides that all borrowing powers are held exclusively by the Treasurer. The liability created by entering into a lease is a form of borrowing, which requires prior approval by the Treasurer, unless the Treasurer determines otherwise.

This Treasurer's Instruction prescribes the circumstances under which the Treasurer has authorised the Accountable Authority, or the Secretary of the Department of Treasury and Finance, to enter into a lease. This Treasurer's Instruction also prescribes the accounting and reporting requirements for leases.

19.2 Australian Accounting Standard AASB 16 *Leases*, provides that, subject to specific approved exceptions as detailed in paragraphs 19.8 and 19.11, all liabilities and right-of-use assets for leases are to be recognised and measured on the Balance Sheet in accordance with that Standard.

Unless specified otherwise in this Treasurer's Instruction, all interpretations and definitions relating to leases are to be based on those in AASB 16.

- 19.3 The Treasurer has delegated the authority to approve or enter into leases to the Secretary of the Department of Treasury and Finance.

Notwithstanding the above, the Treasurer has the discretion to approve or enter into leases, as determined by the Treasurer.

- 19.4 The Treasurer has authorised the Accountable Authority to approve the Agency entering into leases in accordance with paragraphs 19.8, 19.11, 19.12, 19.16, 19.18 and 19.22.
- 19.5 The Treasurer has approved the Accountable Authority to enter into leases, subject to approval by the Secretary of the Department of Treasury and Finance, in accordance with paragraphs 19.9, 19.20 and 19.24.
- 19.6 Any significant amendment to a lease contract, which results in a material change to the lease term or the value of the lease liability, must be approved in accordance with this Treasurer's Instruction.
- 19.7 Accountable Authorities with lessor accounting and reporting obligations must comply with the requirements of AASB 16.

Short-term leases

- 19.8 Where a new lease, including options that are reasonably certain to be exercised, is for a term of 12 months or less and the value of the lease liability is less than \$1 million, the Accountable Authority may approve the Agency entering into a lease and must recognise the applicable lease payments as an expense on a straight line or other systematic basis over the term of the lease.
- 19.9 Where a new lease, including options that are reasonably certain to be exercised, is for a term of 12 months or less and the value of the lease liability is \$1 million or more, the Accountable Authority must seek the prior written approval of the Secretary of the Department of Treasury and Finance before entering into a lease.

The Accountable Authority must ensure that a request to the Secretary of the Department of Treasury and Finance to enter into a lease is accompanied by sufficient supporting documentation to enable an assessment of the request, including details of the proposed accounting and reporting treatment of the lease.

- 19.10 For a lease that has been approved by the Secretary of the Department of Treasury and Finance in accordance with paragraph 19.9, the Secretary will also determine the appropriate accounting and reporting of that lease, based on its materiality and potential impact on one or more reporting periods and the requirements of AASB 16.

Low-value leases

- 19.11 Where a lease is for an individual underlying asset, or for a number of similar assets, which, at the time that those assets were new, were individually valued at \$10 000 or less, the Accountable Authority may approve the Agency entering into a lease and must recognise the applicable lease payments as an expense on a straight line or other systematic basis over the term of the lease.

Low-value underlying assets may include desktop computers, laptops, tablets, mobile phones and small items of equipment and furniture.

Leases for whole-of-government fleet vehicles

- 19.12 The Accountable Authority may approve the Agency entering into a lease for individual motor vehicles or groups of motor vehicles leased outside the whole-of-government fleet management contract, including leases for passenger vehicles, buses, trucks, ambulances, police and other emergency services vehicles, where the Accountable Authority considers the lease of those vehicles to be necessary for the efficient administration or delivery of government services.
- 19.13 The Accountable Authority must recognise the applicable lease liability and right-of-use asset for vehicle leases on the Agency's Balance Sheet.

Leases for office accommodation

- 19.14 In accordance with Treasurer's Instruction C-2 *Contract - Major Office Accommodation Leases*, for major office accommodation leases, where:

- the lease is within the Hobart Central Business District comprising a net lettable area of 400 square metres or more; or
- the lease is outside the Hobart Central Business District comprising a net lettable area of 150 square metres or more.

the lease will be coordinated by Treasury on behalf of each tenant Agency.

- 19.15 The Department of Treasury and Finance will recognise the applicable lease liability and right-of-use asset for major office accommodation leases on Finance-General's Balance Sheet.
- 19.16 For other office accommodation leases that are not major office accommodation leases as described in paragraph 19.14, the Accountable Authority may approve the Agency entering into the lease, where it is necessary for the efficient administration or delivery of government services.
- 19.17 Subject to the approved exceptions for short-term and low-value leases detailed in paragraphs 19.8 and 19.11, the Accountable Authority must recognise the applicable lease liability and right-of-use asset for other office accommodation leases on the Agency's Balance Sheet.

Lease of an individual underlying asset

- 19.18 For the lease of an individual underlying asset with a term of more than 12 months, which is not a vehicle lease or office accommodation lease, where the value of the lease liability is more than \$10 000 but less than \$100 000, the Accountable Authority may approve the Agency entering into a lease where it is considered necessary for the efficient administration or delivery of government services.
- 19.19 The Accountable Authority must recognise the applicable lease liability and right-of-use asset for all leases described in paragraph 19.18 on the Agency's Balance Sheet.
- 19.20 For the lease of an individual underlying asset with a term of more than 12 months, which is not a vehicle lease or office accommodation lease, where the value of the lease liability is \$100 000 or more, the Accountable Authority must seek the prior written approval of the Secretary of the Department of Treasury and Finance before entering into a lease.

The Accountable Authority must ensure that a request to the Secretary of the Department of Treasury and Finance for written approval to enter into the lease of an individual underlying asset is accompanied by sufficient supporting documentation to enable an assessment of the request.

- 19.21 For the lease of an individual underlying asset that has been approved by the Secretary of the Department of Treasury and Finance in accordance with paragraph 19.20, the Accountable Authority must recognise the applicable lease liability and right-of-use asset on the Agency's Balance Sheet.

Lease of a group of underlying assets

- 19.22 For the lease of a group of underlying assets with a term of more than 12 months, which is not a vehicle lease or office accommodation lease, where the value of the lease liability is more than \$10 000 but less than \$500 000 and no individual underlying asset's lease liability is valued at more than \$100 000, the Accountable Authority may approve the Agency entering into a lease where it is considered necessary for the efficient administration or delivery of government services.
- 19.23 The Accountable Authority must recognise the applicable lease liability and right-of-use asset for all leases described in paragraph 19.22 on the Agency's Balance Sheet.
- 19.24 For the lease of a group of underlying assets with a term of more than 12 months, which is not a vehicle lease or office accommodation lease, where the value of the lease liability is \$500 000 or more, the Accountable Authority must seek the prior written approval of the Secretary of the Department of Treasury and Finance before entering into a lease.

The Accountable Authority must ensure that a request to the Secretary of the Department of Treasury and Finance for written approval to enter into the lease of a group of underlying assets is accompanied by sufficient supporting documentation to enable an assessment of the request.

19.25 For the lease of a group of underlying assets that has been approved by the Secretary of the Department of Treasury and Finance in accordance with paragraph 19.24, the Accountable Authority must recognise the applicable lease liability and right-of-use asset on the Agency's Balance Sheet.

Transitional provisions

19.26 For low-value leases and leases with a remaining life of less than 12 months on the day immediately prior to the commencement of this Treasurer's Instruction, the Accountable Authority must recognise the applicable lease payments as an expense on a straight line or other systematic basis over the term of the lease.

19.27 For a lease with a remaining life of more than 12 months on the day immediately prior to the commencement of this Treasurer's Instruction, where AASB 16 requires a lease liability and right-of-use asset to be recognised, the Accountable Authority must ensure that the applicable lease liability and right-of-use asset are recognised on the Agency's Balance Sheet on a partial retrospective basis in accordance with paragraphs C7 to C13 of AASB 16.

19.28 Any lease recognised in accordance with paragraphs 19.26 or 19.27 does not require the prior written approval by the Treasurer and is deemed to be approved.

ADDITIONAL GUIDANCE

Further information in support of this Treasurer's Instruction can be found in the *Financial Management - Better Practice Guidelines*.