

Leases - Revised Methodology

AT A GLANCE:

- The new accounting standard AASB 16 *Leases* commenced on 1 July 2019.
- AASB 16 introduces the requirement for a lease contract to be recognised as a lease liability and a right-to-use asset.
- The recognition methodology for leases under AASB 16 has been revised since the preparation of the 2020 Budget. As a result an explanation of material variances between budget and actual outcomes may be required in 2019-20 Departmental Financial Statements.

This Fact Sheet should be read in conjunction with the *Model Departmental Financial Statements and Treasurer's Instruction FC-19 Leases*.

AASB 16 Leases - Revised Methodology

AASB 16 *Leases* commenced on 1 July 2019, superseding AASB 117 *Leases*. AASB 16 introduces the requirement for contracts to be assessed to determine if the contract is or contains a lease. Where a lease exists agencies must recognise a lease liability and right-of-use asset for the identified asset (subject to allowances for short term leases and low value assets).

Treasurer's Instruction FC-19 *Leases* was drafted to coincide with the commencement of AASB 16, and at the commencement of the *Financial Management Act 2016* on 1 July 2019. Treasurer's Instruction FC-19 was drafted to include the requirement that agencies should recognise the applicable lease liability and right-of-use asset for vehicle leases and the agency's tenancy component of major office accommodation leases. This requirement was applied regardless of whether contracts were agency specific or part of whole-of-Government agreements. The 2020 Budget was developed in accordance with the requirements of Treasurer's Instruction FC-19 at that time.

The 2020 Budget included recognition of lease liabilities and right-of-use assets for major office accommodation and motor vehicle fleet for all agencies. The 2020 Budget variations were managed by Treasury to ensure transactions types and eliminations were consistent across the General Government Sector.

Subsequent to the development of the 2020 Budget, it has been determined that the arrangements between Treasury and agencies for major office accommodation and motor vehicle fleet, do not meet the criteria of a lease contract for the purposes of AASB 16.

Major office accommodation leases include those arrangements where Treasury, as head lessee, enters into the lease agreement with the landlord, and has control of the identified asset, that is, manages the occupation and utilisation of Crown leased office accommodation (as specified in Treasurer's Instruction C-2 *Contracts - Major Office Accommodation Leases*).

Accordingly, revised methodology is required to meet the requirements of AASB 16.

Treasurer's Instruction FC-19 has been revised to adopt this methodology, which is also reflected in the *Model Departmental Financial Statements for the year ended 30 June 2020* (issued under the authority of Treasurer's Instruction FR-3 *Format of Financial Statements*).

Major Office Accommodation

Major office accommodation is defined in Treasurer's Instruction C-2 *Major Office Accommodation*. Major office accommodation leases must be executed by the Department of Treasury and Finance. Treasury assigns agencies to designated tenancies.

The lease liability and right-of-use asset for major office accommodation is recognised on the Finance-General Balance Sheet, on behalf of the Crown. Tenant agencies will recognise the outgoings associated with the occupation of these major office accommodation spaces (that is, rental payments to Treasury) as expenses within supplies and consumables.

Agencies will recognise a commitment in the notes to the financial statements, for the term of occupancy in the major office accommodation spaces.

Agencies must recognise a lease liability and right-of-use asset for all leases executed by the agency that do not meet the definition of 'major office accommodation'. That is, if your Agency has executed the lease on behalf of the Crown, and has control over the occupation and utilisation of the property, then you will recognise a lease liability and right-of-use asset for that property on your Balance Sheet. If Treasury has control over which agency will use the asset and/or has executed the lease, this will be recognised by Finance-General.

A list of major office accommodation executed by Treasury as at 30 June 2020 is included at Attachment A.

Motor Vehicle Fleet

The Government's motor vehicle fleet is owned and managed by Treasury. Treasury is the central agency which purchases vehicles on behalf of individual government agencies. Individual government agencies pay a monthly payment to Treasury via LeasePlan for use of the vehicles. LeasePlan administers the scheme on behalf of Treasury.

As there is no lease contract between Treasury and agencies for the purposes of AASB 16, agencies are not required to recognise a lease liability and right-of-use asset for motor vehicle fleet, and costs are recognised as an expense as incurred.

Agencies will recognise a commitment in the notes to the financial statements, for the terms of motor vehicle fleet agreements.

Where agencies contract directly with suppliers for specialist vehicles (such as firefighting vehicles, ambulances, specialist parks vehicles), the lease contract must be recognised in accordance with AASB 16 on the agency's Balance Sheet, recognising a lease liability and right-of-use asset.

Explanations of Material Variances between Budget and Actual Outcomes

As noted above, the methodology for recognition for some major office accommodation and motor vehicle fleet differs between the 2020 Budget and 2020 actual reporting. In some instances this will cause a material variance between budget and actual outcomes, which will need to be explained in the notes to the financial statements, as required by the *Model Departmental Financial Statements*.

In order to ensure consistency across the General Government Sector, explanations of material variances *in relation to the alternative methodology*, should include:

The variance between 2019-20 Budget and 2020 Actual outcomes for (*specify asset and/or liability*) is due to an alternative recognition methodology for major office accommodation and motor vehicle fleet. At the time of the 2020 Budget in May 2019, the recognition criteria for major office accommodation and motor vehicle fleet was under development, and Budget estimates were based on the best available information at that time. AASB 16 Leases commenced on 1 July 2019, and recognition methodology for major office accommodation and motor vehicle fleet has been finalised and adopted on this basis for the year ended 30 June 2020.

Where a material variance is attributable to other factors, your explanation should describe the circumstances around that variance. For example, a material variance may be described for a decrease in liabilities and assets due to the alternative methodology. A further increase/decrease in motor vehicle costs may be described due to a material change in motor vehicle fleet numbers.

BIMS Adjustments for 2020-21 Budget

Treasury will review the current estimates within BIMS and prepare the necessary Adjustments to remove the finance lease transactions relating to government fleet vehicles and government major office accommodation and replace with the adjusted treatment for these payments.

The Adjustments will be provided to your Agency for review.

Financial Reporting

Additional Transaction Types codes were created to assist in budgeting and reporting for leases of whole of government fleet vehicles and government office accommodation. The change will mean the following Transaction Types will no longer be required and will be removed from the Chart of Accounts.

Transaction Types to be Removed:

Transaction Type Code	Transaction Type Description
2280003	Depreciation of Leased Government Land and Buildings (eliminated)
2280004	Depreciation on LeasePlan Motor Vehicles (eliminated)
2450003	Interest on Leased Government Land and Buildings (eliminated)
2450004	Interest on LeasePlan Motor Vehicles (eliminated)
5980003	Lease assets - Government Land and Buildings (eliminated)
5980004	Lease assets - LeasePlan Motor Vehicles (eliminated)
6230003	Lease liabilities - Government Land and Buildings (eliminated)
6230004	Lease liabilities - LeasePlan Motor Vehicles (eliminated)

The following Transaction Type Codes will be retained and renamed as outlined below. These codes will be used for the payments to Finance-General for government fleet vehicles and government office accommodation. This will allow these transactions to be identified and eliminated for General Government Sector budgeting and reporting.

Amended Transaction Types:

Transaction Type Code	Transaction Type Description
2383003	Payments to Finance-General for Leased Government Land and Buildings (eliminated)
2383004	Payments to Finance-General for LeasePlan Motor Vehicles (eliminated)

Tascorp Indicative Lending Rate inclusive of administration margin

AASB 16 requires the discount rate to calculate the present value of the lease liability is the rate implicit in the lease. Where the implicit interest rate is not known or cannot be determined, AASB 16 requires that the lessee's incremental borrowing rate will be used. Agencies should use the applicable Tascorp indicative lending rate including the relevant administration margin, as an incremental borrowing rate.

Tascorp have provided the following indicative lending rates, inclusive of administration margin, as at 30 June 2020:

Year	Rate %	Year	Rate %	Year	Rate %
1	0.70	11	2.15	21	2.92
2	0.91	12	2.25	22	2.94
3	1.04	13	2.35	23	2.96
4	1.19	14	2.44	24	2.98
5	1.32	15	2.55	25	3.00
6	1.46	16	2.65	26	3.02
7	1.61	17	2.72	27	3.04
8	1.77	18	2.81	28	3.06
9	1.93	19	2.85	29	3.08
10	2.07	20	2.90	30	3.10

Treasury Controlled Major Office Accommodation Leases

Asset Description	Building Name	Address
Office	Executive Building	15 Murray Street, Hobart
Office	Salamanca Building	4 Salamanca Place, Hobart
Office	Reserve Bank Building	Levels 4 & 5, 111 Macquarie Street, Hobart
Office	Vodafone / 100F Building	Levels 6 & 8, 40 Bathurst Street, Hobart
Office	Marine Board Building	1 Franklin Wharf, Hobart
Office		22 Elizabeth Street, Hobart
Office		47 Liverpool Street, Hobart
Office		54 Victoria Street, Hobart
Office		Level 6, 70 Collins Street, Hobart
Office		81 Elizabeth Street, Hobart
Office		27 Elizabeth Street, Hobart
Office		110 Collins Street, Hobart
Office		114 Bathurst Street, Hobart
Office		134 Macquarie Street, Hobart
Office		144 Macquarie Street, Hobart
Office		199 Collins Street, Hobart
Office		163 - 169 Main Road, Moonah
Office		3 Terry Street, Glenorchy
Office		30 Gordons Hill Road, Rosny
Office		76 Federal Street, North Hobart

Treasury Controlled Major Office Accommodation Leases

Asset Description	Building Name	Address
Office	Henty House	1 Civic Square, Launceston
Office	CH Smith	20 Charles Street, Launceston
Office		11-15 Cameron Street, Launceston
Office		112 Cameron Street, Launceston
Office		111-113 St John Street, Launceston
Office		111-113 Cameron Street, Launceston
Office	Cornwall Square	182-192 Cimitiere Street, Launceston
Office		171 Westbury Road, Prospect
Office		Level 3, 46 Mount Street, Burnie
Office	Advocate Building	54-56 Mount Street, Burnie
Office		49-51 Cattley Street, Burnie
Office	Stoney Rise	1-2 Rundle Road, Devonport
Office		57-59 Oldaker Street, Devonport