Blaby District Council

Cabinet Executive

Date of Meeting	24 June 2024
Title of Report	**IFRS 16 Leasing Policy**
	This is not a Key Decision and is on the Forward Plan
Lead Member	**Cllr. Maggie Wright - Finance, People & Performance (Deputy Leader)**
Report Author	Finance Group Manager
Strategic Themes	Ambitious and well managed Council, valuing our people

1. What is this report about?

1.1 The report seeks approval of a new policy covering lease arrangements, following the introduction of a new accounting standard, IFRS 16, effective from 1st April 2024.

2. Recommendation(s) to Cabinet Executive

2.1 That the leasing policy at Appendix A is approved.

3. Reason for Decisions Recommended

3.1 To ensure that the Council only enters a lease arrangement where it offers best value for money, and after having fully explored all alternative procurement options.

4. Matters to consider

4.1 Background

From 1st April 2024, a new International Financial Reporting Standard, IFRS 16, came into effect for Local Authorities. IFRS 16 introduces a new 'Right of Use' asset class to the balance sheet from 2024/25 onwards and recognises the corresponding lease liability. This applies to all leases - property, land, vehicles, plant, and equipment.

IFRS 16 was primarily intended to bring more transparency to leases in companies' financial statements. By reducing the number of leases that are off balance sheet and allowing users of financial statements to make more informed comparisons between companies in particular sectors, this should lead to greater transparency. However, despite not having the same comparative and investment requirements as the private sector, IFRS 16 has also been rolled out to the public sector. This means that whilst finance leases are already accounted for as an asset and corresponding lease liability, from 1st April 2024 any operating leasing commitments must also be accounted for on the balance sheet (aside from some exemptions). Most existing operating leases will come on to the balance sheet.

Any new and existing operating leases now create a new debt in the Council's accounts over the life of the lease. This has financial implications for the Council's Treasury Management Strategy, its Capital Programme, and its Financial Statements. Under IFRS 16, all leases are now classified as capital expenditure, and must be included in the Capital Programme (requiring either Full Council or a delegated approval).

The standard also considers 'Embedded Leases' which exist if there is an explicit or implicit asset identified in the contract and the customer controls the use of the asset, to continue the service. An example of this is where an authority contracts out its refuse service, but the vehicle used by the contractor bear the authority's livery.

IFRS 16 only covers leases where the Council is the lessee, not those where we lease assets to other parties.

4.2 Proposal(s)

When a lease contract is signed, this commits the Council to a debt liability in exchange for the control of an asset for a fixed period. It is, therefore, important that the correct 'value for money' procedures are undertaken, and the correct approvals are in place for the value of the lease agreement.

Under the new standard a lease will require a budget in the Capital Programme for the total value of the leased asset and, therefore, contracts previously paid through revenue will now need to be included in the Capital Programme at their total cost over the life of the scheme and funded through the creation of a debt, which is equivalent to the total lease liability.

This is a significant change to the current approach, and it may be that the Council has some lease agreements that have not had such an approval in place in the past. This is a fairly low risk, but it may be that these agreements have not been correctly assessed for cost and perhaps do not represent the best value for money to the Council.

To support this change, the new Lease Policy at Appendix A is proposed to ensure that all new lease agreements are properly captured and account for correctly. It is important that the Council does not enter a new leasing contract without appropriate authorisation and evaluation. The policy seeks to ensure that leasing information required is captured at the point of procurement which will assist in gathering the data required and consideration of the total cost of this approach.

The Council can set a de-minimis threshold to exclude smaller leases from the technical accounting requirements. For Blaby, it is proposed that this will be £10,000 in line with our existing de minimis limit for capital expenditure. However, it will still be necessary to include a disclosure of the value of leases falling under this policy within the Statement of Accounts. The standard specifies that vehicles are not intended to be included in any low value exemption but that currently doesn't affect Blaby.

The standard also makes provision to exclude any leases than run for less than 12 months or that have less than 12 months remaining on 1st April 2024. There is a requirement to disclose the value and number of leases that fall into this category as part of the Statement of Accounts.

4.3 Relevant Consultations

Senior Leadership Team.

5. What will it cost and are there opportunities for savings?

5.1 No costs directly arising from this report, but the policy seeks to ensure that value for money is a prime consideration of any decision to lease.

6. What are the risks and how can they be reduced?

6.1

Current Risk	Actions to reduce the risks
That new or future lease arrangements may not provide the most cost-effective solution for procuring an asset.	The policy will ensure that all procurement options, including leasing, are considered and are subject to full cost appraisal.

7. Other options considered

7.1 Not to introduce a lease policy. This is not considered appropriate as it may lead to the Council leading to a greater cost than necessary over the life of the asset procured.

8. Environmental impact

8.1 No direct implications arising from this report, but the environmental impact of any procurement of assets must be considered as part of the cost benefit appraisal, whether by lease or an alternative method.

9. Other significant issues

9.1 In preparing this report, the author has considered issues related to Human Rights, Legal Matters, Human Resources, Equalities, Public Health Inequalities, and Climate Local and there are no areas of concern.

10. Appendix

10.1 Appendix A – Lease Policy

11. Background paper(s)

11.1 None.

12. Report author's contact details

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