New Lease Accounting Policy

The Authority as Lessee

IFRS 16 requires that at the commencement date of a lease, a lessee must recognise a right-of-use (ROU) asset and a lease liability.

The lease liability is initially recognised as the present value of future lease payments, discounted using either the implicit interest rate in the lease, or the lessee's incremental borrowing rate if the former is not determinable.

Subsequently, the lease liability is accounted for using amortised cost principles, increased by the interest on the lease liability and decreased by the lease payments made, with interest rates adjusted only under specific circumstances such as changes in lease terms or purchase options.

Exemptions

IFRS 16 sets out exemptions. Leases with a term of 12 months or less without a purchase option, regardless of the materiality of their aggregate effect, are exempt from the lessee accounting model. For these exempt leases, the accounting treatment requires that they be recognized as an expense on a straight-line basis over the lease term. In addition, IFRS16 exempts low value assets. The Authority has determined that leases for which the underlying asset is valued at £7,000 or less when new are exempt from the lessee accounting model.

Non-commercial leases

IFRS 16 requires the right-of-use asset acquired under a lease that does not have commercial payment terms to be accounted for as a donated asset. These circumstances will arise where rents are set at a peppercorn or there are nominal lease payments (and these are not compensated for by premium payments) or there is nil consideration. Peppercorn or nominal payments are defined as those with lease payments substantially below market lease payments.

Lessor Accounting

IFRS 16 substantially carries forward the lessor accounting model from IAS17, so the Authority will continue to classify leases as either operating or finance leases and account for them accordingly.