Appendix 2

The purpose of this appendix is to set out the changes introduced by IFRS 16 Leases for the 2022/23 accounts

The introduction of IFRS 16 Leases for Local Authorities has been delayed by The Chartered Institute of Public Finance and Accounting (CIPFA) and Local Authority (Scotland) Accounts Advisor Committee (LASSAC) until the financial year 2022/23, bringing it in line with the Governments Financial Reporting Advisory Board (FRAB) to establish a new effective date of 1 April 2022.

IFRS 16 details the accounting and disclosure requirements for leases, which is defined in the standard and adapted for public sector adoption as:

"A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time"

The main changes are as follows:

1. The removal from the previous definition of the words "for consideration", therefore we now need to consider all leases for a peppercorn or nil consideration.

2. Where the Council is the lessee, we lease an asset in, any leases over 364 days will be classed as a finance lease and will need to go on to the balance sheet as a right of use asset with a corresponding lease liability.

3. For properties on a finance lease, we will need to add them to the annual property valuation exercise for the Statement of Accounts

4. There are a number of exemptions to 2., but where these are applied we still need to keep records for audit purposes and to inform the new lease disclosure notes.

The impact of these changes are:

- We have currently identified over 40 Peppercorn or nil consideration leases to consider.

- The Council currently has no leases that meet the current criteria for finance leases but the change in rules will mean that current leases will likely change to finance leases.

- We have identified that we need to collate over 50 data points on each lease to make the determination and carryout the necessary accounting for the leases. A template has been produced to assist with the data collection exercise and this will form the basis of a register of leases in to be held by finance and updated regularly throughout the year.

- Finance leases introduce new debt on to the balance sheet in the form of a lease liability. As per the Finance Procedure Rules all debt needs to be signed off by the Chief Financial Officer, therefore updates to the Finance Procedure Rules have been proposed in the Review of Financial Procedure Rules report also on this agenda.

- The addition of finance leases on to our balance sheet will affect the Prudential and Treasury Management indicators on debt. These need to be set by Council prior to the start of the finance year to which they will apply. As a result we need to understand what the likely lease liability for 2022/23 will be before 1st April 2022 so that we can ensure the Council has set the correct Operational Limit and Authorised Limit for borrowing or it could affect our ability to borrow in 2022/23.

- New policies and procedures for leasing need to be created to ensure that we comply with IFRS 16 and provide a workable process for the Council's officers. This is currently being identified and worked up and will be presented to an Audit committee meeting in 2022.

Members of the finance team are currently working on ensuring the Council complies with these upcoming changes to leases and a data gathering exercise is being launched in December alongside training to council officers in general and targeted at those that deal with leasing in assets.

Work is also ongoing with the property services team on leases where the Council is the Lessor, which is where the council lease property assets out.

The scale of this change means that there is a significant risk of the 2022/23 statement of accounts being materially misstated as a result of the application of leasing standard. Therefore external assistance and guidance is being considered to help ensure we comply completely with the requirements of IFRS 16. We have identified an underspend on external audit fees against budget arising from the receipt of a one off grant this year to help us fund this support.