Financial Reporting Objectives:

- Accountability
- Decision making
IPSAS Alignment with IFRS
‘Rules of the Road’

IFRS (Private Sector)

• Terminology
• Public sector examples
• Public sector issues
• Public sector guidance

IPSASs (Public Sector)
### Table 1 – IPSAS and Equivalent IFRS—Summary

<table>
<thead>
<tr>
<th>IPSAS</th>
<th>IFRS</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Presentation of Financial Statements</td>
<td>IAS 1</td>
<td><img src="https://example.com/ipsas" alt="Status" /></td>
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<tr>
<td>2. Cash Flow Statements</td>
<td>IAS 7</td>
<td><img src="https://example.com/ipsas" alt="Status" /></td>
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<tr>
<td>3. Accounting Policies, Changes in Accounting Estimates and Errors</td>
<td>IAS 8</td>
<td><img src="https://example.com/ipsas" alt="Status" /></td>
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<tr>
<td>4. The Effects of Changes in Foreign Exchange Rates</td>
<td>IAS 21</td>
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<tr>
<td>5. Borrowing Costs</td>
<td>IAS 23</td>
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<td>9. Revenue from Exchange Transactions</td>
<td>IAS 18</td>
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<td>10. Financial Reporting in Hyperinflationary Economies</td>
<td>IAS 29</td>
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<td>11. Construction Contracts</td>
<td>IAS 11</td>
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<td>12. Inventories</td>
<td>IAS 2</td>
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<tr>
<td>13. Leases</td>
<td>IAS 17</td>
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<td>14. Events after the Reporting Date</td>
<td>IAS 10</td>
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<tr>
<td>16. Investment Property</td>
<td>IAS 40</td>
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<td>17. Property, Plant, and Equipment</td>
<td>IAS 16</td>
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<td>18. Segment Reporting</td>
<td>IAS 14</td>
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<td>20. Related Party Disclosures</td>
<td>IAS 24</td>
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<td>21. Impairment of Non-Cash-Generating Assets</td>
<td>IAS 36</td>
<td><img src="https://example.com/ipsas" alt="Status" /></td>
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<td>23. Revenue from Non-Exchange Transactions (Taxes and Transfers)</td>
<td>–</td>
<td><img src="https://example.com/ipsas" alt="Status" /></td>
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<tr>
<td>24. Presentation of Budget Information in Financial Statements</td>
<td>–</td>
<td><img src="https://example.com/ipsas" alt="Status" /></td>
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<tr>
<td>26. Impairment of Cash-Generating Assets</td>
<td>IAS 36</td>
<td><img src="https://example.com/ipsas" alt="Status" /></td>
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<td>27. Agriculture</td>
<td>IAS 41</td>
<td><img src="https://example.com/ipsas" alt="Status" /></td>
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<tr>
<td>28. Financial Instruments: Presentation</td>
<td>IAS 32, IFRIC 2</td>
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<tr>
<td>29. Financial Instruments: Recognition and Measurement</td>
<td>IAS 39, IFRIC 16</td>
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<td>30. Financial Instruments: Disclosures</td>
<td>IFRS 7</td>
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<td>31. Intangible Assets</td>
<td>IAS 38, SIC 32</td>
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</table>

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**Note:** IPSAS and IFRS are standardized frameworks for financial reporting, ensuring comparability and transparency in financial statements.
Leases project landscape

IPSASB Conceptual Framework

IPSASB "Rules of the Road"

Existing IPSAS

IPSASB Leases Project Aim
ED 64: Determining lessee accounting approach

Right-of-use model for lessee accounting in IFRS 16

- Consistent with the IPSASB *Conceptual Framework*
- Improves comparability between public sector entities that lease assets and public sector entities that purchase assets
- Provides most useful information to broadest range of financial statement users
- Adoption costs should not outweigh benefits – use of IFRS 16 exemptions

No public sector issues warranting IFRS 16 departure
ED 64: Determining lessor accounting approach

Risks and rewards model for lessor accounting in IFRS 16

- Inconsistent with the IPSASB Conceptual Framework – risks and rewards model not control based
- Lease receivable meets financial asset definition
- Inconsistent with IPSAS 32, *Service Concession Arrangements: Grantor*
- Practical consolidation issues where the lessor and the lessee are both within same consolidation entity – more prevalent in public sector

IFRS 16 departure warranted
ED 64: Overview of single ‘right of use’ proposals

Accounting for the underlying asset
- **Lessor** recognizes and measures according to the applicable IPSAS - different to IFRS 16

Separate accounting for the lease (right-of-use)
- **Lessee liability** – as per IFRS 16
- **Lessor receivable** – different to IFRS 16
- **Lessor liability (unearned revenue)** – different to IFRS 16
- At market terms – unless a concessionary lease
- At below market terms – concessionary leases
ED 64: Overview of responses

• Lessee accounting:
  - Strong support for ‘right of use’ approach

• Lessor accounting:
  - Majority support for IFRS 16 departure
    – Lack of clear support for ED 64 proposals
    – Alternative proposals
    – Opposing views on the same issues

• Concessionary leases:
  - Majority support for lessee proposals
  - Diverse views on lessor proposals
Lessee accounting: Decision to proceed with Right of Use (IFRS 16)

Lessor accounting: Three broad options:
- Proceed with ED64 proposals?
- Revert to IFRS 16 approach?
- Develop another approach?

Concessionary leases: Approach to be decided in light of above deliberations

Planned approach:
- Detailed review of responses
- Review of earlier deliberations on IASB CP and EDs
- Assess available experience on IFRS 16 implementation
- Task Force formation – work through detail
- Potential need for further ED
Questions, discussion & further information

- Or contact us by e-mail:
  - IPSASB Chair: [iancarruthers@ipsasb.org](mailto:iancarruthers@ipsasb.org)
  - Technical Director: [johnstanford@ipsasb.org](mailto:johnstanford@ipsasb.org)
The New Leasing Standard - A Public Sector Perspective

Angela Ryan
Principal Accounting Advisor - The Treasury

11 February 2019
The Government as lessee

- Financial Impacts & Public Sector Management
- Mixed Group Reporting Challenges
- Inter-entity leasing
Total Borrowings

Total borrowings provides a whole-of-Government perspective of financing that has been required to fund all of the Government’s activity.

What the Treasury says

Total borrowings represents gross debt (the borrowings of the core Crown) and the borrowings undertaken by Crown Entities and SOEs.

Total borrowing for the Government increased by $3.9 billion from $111.8 billion in 2018/17 to $115.7 billion.

As a percentage of GDP, total borrowings at 40.0%, decreased by 0.8% compared to the prior year.

Debt Reconciliation

<table>
<thead>
<tr>
<th>Year ended 30 June</th>
<th>2018 ($ billion)</th>
<th>2017 ($ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net core Crown debt</td>
<td>57.5</td>
<td>59.5</td>
</tr>
<tr>
<td>Core Crown financial assets</td>
<td>37.9</td>
<td>33.1</td>
</tr>
<tr>
<td>Gross sovereign-issued debt</td>
<td>95.4</td>
<td>92.6</td>
</tr>
<tr>
<td>Other adjustments</td>
<td>(7.4)</td>
<td>(5.5)</td>
</tr>
<tr>
<td>Gross debt</td>
<td>88.1</td>
<td>87.1</td>
</tr>
<tr>
<td>Crown entities, SOEs borrowings and eliminations</td>
<td>27.6</td>
<td>24.7</td>
</tr>
<tr>
<td>Total borrowings</td>
<td>115.7</td>
<td>111.8</td>
</tr>
</tbody>
</table>

$7.2b of operating lease commitments at 30 June 2018 (undiscounted)

$3.7b relate to accommodation leases

Source: https://treasury.govt.nz/publications/information-release/fsg-basics-2018
The Gov’t’s target of getting net Crown debt down to 20% of GDP by 2022 has been questioned, but Finance Minister Grant Robertson is not budging from his commitment

The Government’s commitment to reducing net debt to 20% of GDP by 2021/22 has again come under fire this week – is the issue that it’s debt target is a bit too specific?
Setting Budget Allowances
(Budget Policy Statement 2019)

**Table 3** – Budget allowances (before pre-commitments)

<table>
<thead>
<tr>
<th></th>
<th>Budget 2019</th>
<th>Budget 2020</th>
<th>Budget 2021</th>
<th>Budget 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating allowances (per year)</td>
<td>2.400</td>
<td>2.400</td>
<td>2.400</td>
<td>2.400</td>
</tr>
<tr>
<td>Previous single-year capital allowance (total)</td>
<td>3.700</td>
<td>3.400</td>
<td>3.000</td>
<td>3.000</td>
</tr>
<tr>
<td>Multi-year capital envelope (total)</td>
<td></td>
<td></td>
<td>13.100</td>
<td></td>
</tr>
</tbody>
</table>

Source: The Treasury
The Public Finance Act provides for seven types of appropriation, including output expenses, borrowing expenses and capital expenditure.

Prohibition of borrowings by Departments

ED 64 proposes new right-of-use assets and lease liabilities.

Rental expense is replaced by depreciation and interest expenses.

Need to consider the impact of the new type and pattern of expenditure in the appropriation framework.
Mixed Group Reporting Challenges

Government Reporting entity is designated as a Public Benefit Entity (PBE)

Uniform accounting policies for like transactions in similar circumstances

SOEs and Mixed Ownership Model Companies are designated as for-profit entities (adopt IFRS 16 2019/20)
Inter-entity leasing - benefits vs costs

**Lessor**
- Lease Receivable
- Obligation to provide ROU asset (Unearned Income)
  \[(Present \ Value \ of \ lease \ receipts)\]
- Interest income
- Revenue (amortisation of obligation)

**Lessee**
- Right of Use (ROU) Asset
- Lease Liability
  \[(Present \ value \ of \ lease \ payments)\]
- Depreciation of ROU asset
- Interest expense
New Leasing Standards for PBEs and For-profits

A local government perspective

Francis Caetano
Group Financial Controller
Auckland Council group

- Largest local council in Australasia
- 1.66m people (120k new residents in last four years)
- $4.54b revenue ($3.88b expenditure)
- $1.67b capex spend
- $8.22b net debt
- $51.46b total assets
- Higher credit rating than NZ banks (AA (S&P) Aa2 Moody’s)
- Approximately 10,000 FTEs

Nelson Street Lightpath Cycleway
Auckland Council group structure

- **Council-controlled organisation (CCO)** – 100% owned **public benefit** entity
  - Ports of Auckland – 100% owned
  - Auckland International Airport Limited – 22% interest

Other CCOs (less than 1% of group gross assets) also consolidated:
  - Community Education Trust (COMET) Auckland
  - Contemporary Art Foundation
  - Arts Regional Trust (ART)
  - Highbrook Park Trust
  - Manukau Beautification Charitable Trust
  - Mangere Mountain Education Trust
  - Mount Albert Grammar School Community Swimming Pool Trust
  - Te Motu a Hiaora (Puketutu Island) Governance Trust
  - Te Puru Community Charitable Trust.
Core services provided

- Sports fields
- Street lights
- Public transport
- Community facilities
- Regulatory/compliance
- Environment
- Stormwater
- Wastewater
- Water
- Footpaths
- Parks
- Roads

Auckland Council
Te Kaunihora o Tamaki Makaurau
Council leases as lessor

Commercial leases
Property held for strategic purposes (market rates)
- Cafes and restaurants
- Commercial businesses

Community groups/charities
Concessionary and “peppercorn” leases
- Council community facilities – mainly charitable trusts/groups
- Reserve land (parkland) – mainly sports/recreation clubs

Social housing
Concessionary rentals
- Housing for the elderly

Economic development properties
Concessionary rentals
- Incubator business/innovation centres
Supporting community groups

Cash and in-kind grants
  • to support delivery of social and community services

Concessionary leases
  • subsidised accommodation in council facilities
  • “peppercorn” leases on council reserve land for sport/recreation club facilities and social housing units

Auckland Council has over 1,300 concessionary / peppercorn leases plus 1,452 social housing leases.
Concerns with IPSASB ED 64 *Leases*

**Lessor accounting**

- why *significantly* different from IFRS 16 – mixed groups prefer to minimise differences?

**Lessor accounting for concessionary/“peppercorn” leases**

- not practicable to establish market rentals for many of these leases
- cost vs. benefits to ratepayers/taxpayers
- double counting under “right-of-use” model for lessors
- alternative solution – narrative note disclosures
The end
Leasing - Private Sector Perspective

Monday 11th February 2019

Karl Hickey
Impact Assessment

Completeness – how many leases do you have?
Disclosures
Service Contracts
Identifiable Assets

Financial Statements – Debt and Amortisation

Calculations asymmetrical
Data and Tools

What information is needed?

Key Definitions
- Lease Term
- Discount Rate
- Small Value Lease option

Should I use a spreadsheet?
- Update and Maintain
- Integration with other systems
- Payments
Stakeholder Management

Who is involved?

Internal and External Stakeholder Management

Working with Vendors
Thank you