# Treasurer’s Directions (mandatory)

| Purpose | To establish minimum requirements for the recognition, measurement and management of leases. |
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| **Operative date** | Effective from 23 September 2019 |
| **References** | * Guidance document – Treasurer’s delegations
* Treasurer's Directions:
* R2.1 Agency Financial Statements
* R3.1 GBD Financial Statements
* Treasurer’s instruments of delegations
* Australian Accounting Standards AASB 16 Leases (AASB 16) and relevant amendments
* *Financial Management Act 1995* (FMA)
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# Lease definition and scope

1. A lease is a contract, or part of a contract, that conveys the right to control the use of an asset for a period of time in exchange for consideration.
2. Under a lease agreement, the lessor is the legal owner of the asset and gives the lessee the right to control the use of that asset in return for a series of payments.
3. Where a contract contains a lease and non-lease components, an accountable officer must account for these separately where the non-lease component is material.
4. Pursuant to paragraph 3, where consideration of each component is not readily identifiable within the contract, an accountable officer may use judgment and document assumptions to allocate appropriate consideration to each component.

## Lease exclusions

1. The following lease arrangements are excluded from the scope of AASB 16 and this Treasurer's Direction:
2. exploration leases for minerals, oils, natural gas
3. biological assets
4. service concession arrangements
5. licences of intellectual property granted by a lessor
6. and rights held by a lessee under licensing agreements, for example motion picture films, video recordings, plays, manuscripts, patents and copyrights.
7. Where an agency is a lessee, the following lease arrangements must not be accounted for in the statement of financial position, and must be expensed directly in the operating statement as a lease payment over the lease term:
8. Inter-governmental leases or subleases - Lease arrangements between Northern Territory Government agencies or consolidated entities in the general government sector
9. Short term leases - Lease agreements with a lease term of 12 months or less and with no purchase option
10. Low value lease assets - Lease arrangements with a leased asset value, when new, of less than
$10 000 (GST exclusive) and not subject to a sublease arrangement
11. Leases of other intangible assets - Rights held by a lessee on other intangible assets (for example, computer software programs)
12. Government business divisions (GBD) are not permitted to apply exclusions as per 6.a.

# Lease term

1. A lease term is the non-cancellable period for which a lessee has the right to use an underlying asset, together with:
2. periods covered by an option to extend the lease, if the lessee is reasonably certain to exercise that option and can enforce the extension without the agreement of the lessor
3. and periods covered by an option to terminate the lease, if the lessee is reasonably certain not to exercise that option or the termination option is controlled by the lessor.

# Risk management

## Risk assessment

1. An accountable officer must conduct and document a risk assessment prior to following the approval process outlined in paragraphs 14 to 15 and 27 to 31 to determine the risks assumed for lease arrangements:
2. are commensurate with the objectives, scope and benefits of the lease arrangement
3. and do not present unacceptable risk exposure to the NT Government.

## Monitoring and evaluation

1. An accountable officer must monitor risks relating to lease arrangements which must include at a minimum:
2. monitoring, evaluating and documenting identified risks at least once every financial year
3. where applicable, taking action to mitigate or minimise identified risks within a reasonable timeframe.

# Accounting by lessor

1. Where an agency is a lessor in the lease arrangement, it must classify each of its lease agreements as either finance or operating leases at the inception date.
2. A finance lease is an arrangement where the lessor transfers substantially all the risks and rewards incidental to the use of the leased asset to the lessee.
3. An operating lease is an arrangement where the lessor effectively retains substantially all the risk and rewards of ownership of the leased asset.

## Approval process

1. Lease arrangements classified as finance lease, is a form of lending and can only be approved in accordance with section 31 of the FMA, by either:
2. the Treasurer or
3. a delegate authorised by section 39(1) of the FMA.
4. Pursuant to paragraph 14.b, an accountable officer may approve finance lease arrangements when all the following criteria are met:
5. leasing the asset is the most appropriate course of action
6. the total lease receivable per contract is assessed as having a value of less than $500 000 (GST exclusive)
7. and the lease arrangement is within the accountable officer's area of responsibility.

## Recognition and measurement

### Finance lease

#### Initial measurement

1. Agencies must recognise a receivable equal to the net investment in the lease and derecognise the underlying asset on the statement of financial position.
2. The net investment is to be measured at the present value of future lease receipts over the lease term.
3. Agencies must use an appropriate discount rate commensurate with the lease term to calculate the present value of the net investment if the interest rate implicit in the lease arrangement cannot be readily determined.

#### Subsequent measurement

1. Agencies must annually recognise lease interest income and a reduction to the lease receivable equivalent to the lease receipt over the lease term.
2. An accountable officer must ensure at each reporting date:
3. lease receivables are assessed for impairment and the outcome documented
4. and where applicable, impairment losses are measured and recognised.

### Operating lease

1. Agencies must recognise lease payments as income in the comprehensive operating statement on a straight-line basis over the lease term, unless another systematic basis is more representative.

### Sublease arrangement

1. A sublease is an arrangement where the underlying asset is re-leased by a lessee (intermediate lessor) to another party, and the lease (head lease) between the head lessor and original lessee remains in effect.
2. Sublease arrangements are only to be assessed in accordance with paragraph 25 where all the following criteria are met:
3. the sublease is to a party external to government or a government owned corporation
4. the subleased asset is material in proportion to the entire asset
5. and is not a peppercorn lease.
6. Pursuant to paragraph 23.a, for a GBD, a sublease includes arrangements with Northern Territory Government agencies or consolidated entities in the general government sector.
7. Pursuant to paragraph 23 and 24, an intermediate lessor must classify subleases as follows:
8. the sublease shall be classified as a finance lease if:
	* 1. the lease term is more than 12 months and forms majority of the expected term of the right-of-use asset under the head lease arrangement
		2. and is assessed and deemed as material by the accountable officer.
9. otherwise, the sublease shall be classified as an operating lease.

# Accounting by lessee

1. Where an agency is a lessee in the lease arrangement, it shall recognise a right-of-use asset and lease liability at the commencement date of the lease arrangement in the statement of financial position.

## Approval process

1. Lease arrangements, with the exception of arrangements falling under paragraph 6, are a form of borrowing and can only be approved in accordance with section 32 of the FMA by either
2. the Treasurer
3. or a delegate authorised by section 39(1) of the FMA.
4. Pursuant to paragraph 27.b, an accountable officer may approve a lease contract when all of the following criteria are met:
5. leasing the asset is the most appropriate course of action
6. the total lease liability per contract is assessed as having a value of less than $500 000 (GST exclusive)
7. and is within the accountable officer's area of responsibility.
8. Pursuant to paragraph 27.b, the accountable officer of Department of Corporate and Digital Development may approve a lease contract when all of the following criteria are met:
9. leasing the asset is the most appropriate course of action
10. and the borrowing arrangement is a lease of commercial property or Aboriginal land including those entered into on behalf of Northern Territory Government agencies.
11. Pursuant to paragraph 27.b, the accountable officer of Department of Environment, Parks and Water Security may approve a lease contract when all of the following criteria are met:
12. leasing the asset is the most appropriate course of action
13. and the borrowing arrangement is a lease of Aboriginal land for national parks.
14. Pursuant to paragraph 27.b, an accountable officer of Department of Territory Families, Housing and Communities may approve a lease contract when all of the following criteria are met:
15. leasing the asset is the most appropriate course of action
16. and the borrowing arrangement is a lease for public or government employee housing and land used for those purposes.

## Recognition and measurement

### Initial measurement

1. All right-of-use assets including assets under lease arrangement with significantly below market terms and conditions (such as peppercorn leases) must be measured at cost.
2. Lease liability must be measured at the present value of unpaid lease payments over the lease term.
3. Agencies must use the Northern Territory Treasury Corporation's institutional bond rates to calculate the present value of the lease liability if the interest rate implicit in the lease arrangement cannot be readily determined.

### Subsequent measurement

1. Right-of-use asset must be measured:
2. at fair value and must adopt the cost approach valuation technique where the fair value approximates cost unless another valuation method is deemed appropriate
3. assessed for impairment annually
4. and adjusted for any remeasurement of the lease liability as per paragraphs 38 to 40.
5. Lease arrangements with significantly below market terms and conditions (such as peppercorn or concessionary leases) are excluded from the requirements of paragraph 35.a and must be measured at cost.
6. Lease liability must be measured by:
7. increasing the carrying amount to reflect interest on the lease liability
8. reducing the carrying amount to reflect lease payments made
9. and adjusted for remeasurement to reflect any reassessment or lease modifications as per paragraphs 38 to 40.

### Remeasurement

1. Pursuant to paragraphs 35.c and 37.c, a lessee must remeasure the lease liability as an adjustment to the right-of-use asset to reflect changes in lease payments.
2. Remeasurement triggers include one or more of the following changes to:
3. lease term
4. assessment of purchase option
5. amounts expected to be payable under a residual guarantee
6. future lease payments resulting from a change to an indexation rate or market rental rates.
7. Lease liability shall be remeasured by discounting the revised lease payments:
8. using a revised discount rate for the remainder of the lease term pursuant to paragraphs 39.a and 39.b
9. or unchanged discount rate pursuant to paragraphs 39.c and 39.d.

# Management and recordkeeping

1. An accountable officer must consider at a minimum the following:
2. safeguarding and protecting the assets against loss or damage
3. monitoring of asset condition, use and performance
4. and asset life cycle management, taking into account asset planning, acquisition, operation, including maintenance and disposal.
5. An accountable officer is responsible for keeping records relating to lease arrangements (excluding leases as per paragraph 5 to 7) entered into by his or her agency and, at a minimum, must:
6. establish processes to collect and manage records of lease arrangements, including documenting assumptions and calculations used to determine the recognition and measurement impact in the statement of financial position and operating statements
7. ensure records are maintained in a register of lease arrangements.
8. Register of lease arrangements is not required where an agency has never had any lease arrangement.
9. An accountable officer must retain records relating to lease arrangements, for the specified minimum period, in accordance with the agency's records disposal schedule.

# Reporting

1. An accountable officer must classify and present leases in accordance with the Treasurer's Direction on agency (or government business division) financial statements.
2. Upon request, an accountable officer must provide Department of Treasury and Finance a copy of the leases register and any other relevant information as necessary.

# Change history

| Version | Date | Author | Change details |
| --- | --- | --- | --- |
| 1.0 | December 2010 | DTF Financial Policy | Initial version |
| 1.1 | September 2019 | DTF Financial Policy | Compliance with the new accounting standard AASB 16 Leases and delegation changes – refer to Treasury Circular L12-19 |
| 1.2 | June 2021 | DTF Financial Policy | Reflect impact of machinery of government changes on approval process and removal of transitional requirements – refer to Treasury Circular L07-21 |