

# Delivering a successful Local Authority IFRS 16 implementation

CIPFA LASAAC has confirmed that IFRS 16 will be implemented from 1 April 2024 and is adopted in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2024/25.

The implementation of IFRS 16 will be resource intensive for many local authorities, though this will vary between authorities depending on, for example, the number and complexity of leases and the completeness and accessibility of documents.

## Implementing IFRS16 will have broad implications:

- It will affect the Capital Financing Requirement, Minimum Revenue Provision and Borrowing Limits
- It will require significant lease data, which may not be readily accessible
- There may be potential systems implications to embed reporting under IFRS 16
- It will affect the accounts production processes, in addition to business process for the management of leases
- It will require consideration as to the impact for lease and contracting strategies as part of Capital Investment decisions

As many of the challenges that led to the delay in implementing IFRS 16 remain, the additional resource requirements of implementing IFRS 16, will place further pressure on finance team capacity.

## We have set out below the three phases that we believe support a successful IFRS 16 implementation for Local Authorities.

### Prepare

- Readiness/impact
- Data
- Project management

### Implement

- Accounting
- System and modelling
- Financial reporting and disclosures

### Operationalise

- Controls and governance
- Monitoring and compliance
- Communication

“Implementing IFRS 16 will have implications across the organisation, which are often underestimated. To deliver a successful implementation the time to act is now.”

# IFRS16 implementation

We recognise that every Authority is different and will be at different stages of implementation. Using our experience, we have developed a range of IFRS 16 services, that will provide you with the flexibility of choosing what works for your Authority.

## Prepare

Important elements of the prepare phase include: implementing a project team, understanding the potential impact (including technical implications), developing an implementation road map and obtaining the required lease data.



### Project management

We can advise and support your IFRS 16 project management and governance, including:

- Review your proposed approach, highlighting areas of improvement or opportunity
- Act as a sounding board at programme meetings or
- Design and support programme management delivery



### Readiness and impact

Our experts can perform an impact assessment to provide insight on areas of focus and complexity, with a road map to support your implementation. We can also review and feedback on an impact assessment completed by the authority.



### Data

- **Prepare:** we can support you in developing a plan that sets out the data that needs to be extracted, the lease population and key internal stakeholders to obtain lease data from
- **Obtain and extract:** we can help you obtain and extract the necessary information from leases in a consistent way, supported by an audit trail
- **Validate:** we can support you to validate your lease information and its completeness

## Implement

Key elements of the implement phase include: technical interrogation of lease data to identify and model the appropriate treatment, developing appropriate financial reporting mechanisms and understanding your system requirements and limitations.



### Accounting

- **Technical/complex transactions:** we can support you with the technical challenges of implementing IFRS 16 and interpreting the Code for lease and complex lease transactions e.g., embedded leases and sale and leaseback
- **Accounting policies/key judgements:** IFRS 16 requires several key judgements as part of implementation, e.g., small value items, break clauses and an approach to peppercorn leases. We can support the Authority with its judgements, and the production of its IFRS 16 accounting policies
- **PFI/ IFRIC 12:** we can support you to review and measure the liabilities from existing PFI and IFRIC 12 arrangements
- **Training:** we can provide training to your team during implementation through knowledge transfer or direct training
- **Discount rate:** Where required we can support you to determine appropriate discount rates



### Financial reporting and disclosures

We can support you in determining and developing the Authority's financial reporting requirements, following implementation of IFRS 16.



### Systems and modelling

- **Systems:** we can gain an understanding of the systems used in the process to account for and manage leases. We will raise recommendations for improvement to aid the IFRS16 implementation
- **Model:** we can provide the Authority with a model to account for leases in accordance with IFRS 16. Our model can be used for assessing impacts, scenarios and understanding the lease accounting entries. We can provide the model to Authorities or update on behalf of Authorities. This can be customised and more cost effective than software

## Operationalise

It is important to consider how IFRS 16 will be embedded to become business as usual and its impact on other areas such as budgeting, reporting, KPIs and business processes.



### Processes, controls and governance

Implementing IFRS 16 will require changes to some of the existing processes and controls. We can:

- Identify the processes and controls impacted
- Understand existing processes used to account for and manage leases, identifying opportunities for improvement
- Design new processes and controls to comply with IFRS 16



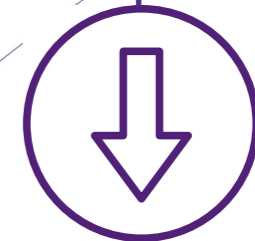
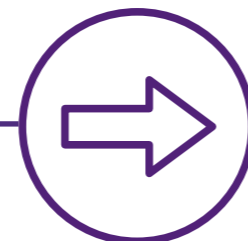
### Monitoring and compliance

We can work with management to understand the other areas potentially impacted by implementing IFRS 16, e.g. budgeting/reporting and prudential borrowing indicators. We can identify potential process solutions, to implement so they become business as usual.



### Communication

We can support you to communicate the impact of IFRS 16 to your key stakeholders to improve knowledge and decision making.



## Why Grant Thornton?

Grant Thornton have supported both commercial and public sector organisations with its implementation of IFRS 16. Our extensive external audit of Local Authorities provides us with an in-depth understanding of the operational challenges that Local Authorities face in implementing IFRS 16. We also have a comprehensive understanding of the specific accounting requirements of the Code of Practice on Local Authority Accounting and auditor requirements, ensuring that we provide robust auditable documentation.

With our access to technology, we combine it with our approach to ensure an efficient and effective implementation process. At Grant Thornton, we stay at the forefront of accounting and industry changes, ensuring that we provide the most innovative and up-to-date solutions to our clients.

## Contact

If you would like to understand more on how we can support your Authority implement IFRS 16, please contact:



**Richard Thomas**

Director, Head of Public Sector Financial Reporting and Accounting Support Services

**T** +44 (0) 7385 117 425

**E** richard.dm.thomas@uk.gt.com

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