



Annex to Government Financial Reporting Manual 2021-22: IFRS 16 Guidance

Introduction

1. In 2020, FRAB decided not to mandate implementation of IFRS 16 from 1 April 2021. FRAB agreed the mandatory effective date of IFRS 16 should be 1 April 2022.
2. FRAB also agreed that an expanded 'early adoption' option be given to entities reporting under the FReM that wish to implement IFRS 16 from 1 April 2021. Early adoption from 1 April 2021 is available for entities where approval has been received from the relevant authority.
3. As implementation of IFRS 16 for entities applying the FReM in 2021-22 is not mandatory, the FReM does not include guidance on IFRS 16 aside from the agreed adaptations and interpretations in section 8.2 of the Manual.
4. The purpose of this annex is to set out the IFRS 16 guidance which will be included in the FReM once implementation of IFRS 16 becomes mandatory for entities applying the FReM.
5. Entities who implement IFRS 16 from 1 April 2021 should therefore read this annex alongside the 2021-22 FReM when preparing their 2021-22 statutory annual report and accounts.
6. In addition to this document, HM Treasury have prepared a set of illustrative statements which include IFRS 16 disclosures. This has not been made publicly available, but can be obtained from your HM Treasury contacts.
7. There are a relatively small number of areas of the FReM affected by IFRS 16- these are set out below and replace the equivalent guidance in the FReM. For example, in the 'Commitments under PPP contracts' section immediately below this paragraph, paragraphs 7.6.14 and 7.6.15 quoted below replace the equivalent paragraphs in the 2021-22 FReM.
8. Note that early adoption of IFRS 16 has also been permitted from 1 April 2019 in very limited circumstances (as set out in the 2021-22 FReM); for those entities, the guidance in this annex also applies.

Additional guidance

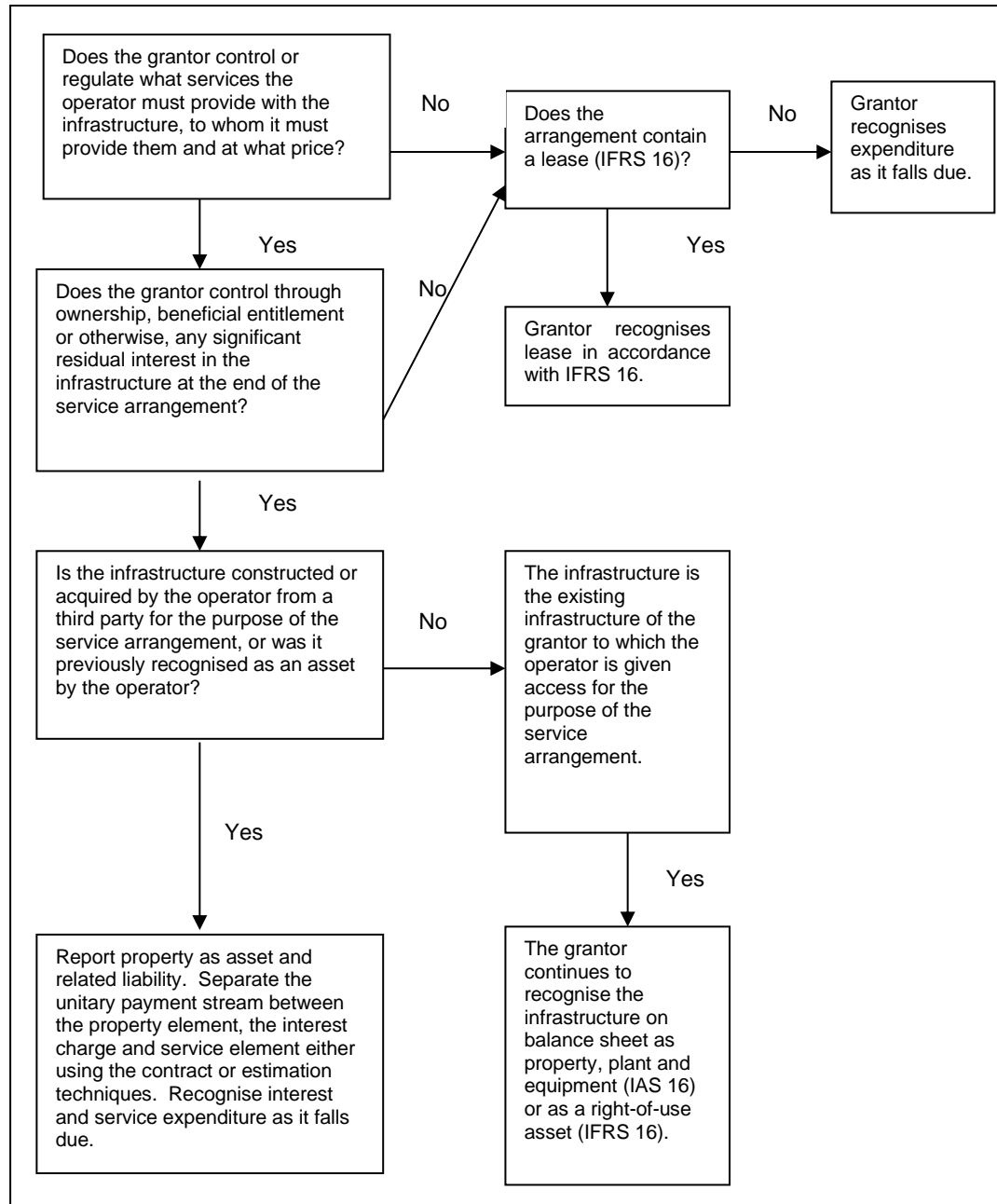
1. Commitments under PPP contracts (section 7.6 of the FReM)

Instruction to preparers: replace paragraphs 7.6.14 and 7.6.15 in the 2021-22 FReM with the following paragraphs:

- 7.6.14 For 'off-balance sheet' service concessions entities should disclose the total payments to which they are committed, distinguishing between those that are due to be made within one year, between one and five years, and later than five years.
- 7.6.15 For 'on-balance sheet' service concession arrangements the relevant SIC 29 and IFRS 7 disclosures should be made, along with any relevant disclosures required under IFRS for the underlying infrastructure in the service concession arrangements. In addition, entities should ensure they disclose the total commitments due within one year, between one and five years, and later than five years. This should include a reconciliation between the cash flows included in the liability recognised on the Statement of Financial Position and its present value.

2. Flowchart of accounting for PPP arrangements (section 10.1 of the FReM, after para 10.1.53)

Instruction to preparers: replace the PPP flowchart after para 10.1.53 in the 2021-22 FReM with the following flowchart:



3. Subsequent measurement of PPP arrangements (section 10.1 of the FReM)

Instruction to preparers: replace paragraph 10.1.56 in the 2021-22 FReM with:

10.1.56 The asset will be measured in one of two ways:

- a) where the contract is separable between the service element, the interest charge and the infrastructure asset (see also paragraph 10.1.53), the asset will be initially measured following the guidance in IFRS 16 (with the discount rate specified in paragraph 10.1.60), with the service element and the interest charge recognised as incurred over the term of the concession arrangement (the subsequent measurement should be subject to the guidance of IAS 16); or
- b) where there is a unitary payment stream that includes infrastructure and service elements that cannot be separated, the various elements will be separated using estimation techniques as set out in paragraph 10.1.52.

4. Measurement of right of use assets (this would be section 10.2 of the FReM)

Instruction to preparers: before paragraph 10.2 in the 2021-22 in the FReM insert:

10.2 Right of use assets

10.2.1 Right-of-use assets should be subsequently measured following the principles of IAS 16 as interpreted in this Manual. In most cases, the cost model in IFRS 16 is an appropriate proxy for current value in existing use or fair value. This is because right-of-use assets generally have shorter useful lives and values than their respective underlying assets (see guidance in paragraph 10.1.14 regarding using cost as a proxy for owned assets with shorter economic lives or low values). Additionally, in many cases leases will have terms that require lease payments to be updated for market conditions, which will be captured in the IFRS 16 cost measurement requirements.

10.2.2 However, for some right-of-use assets, the cost model in IFRS 16 will not be an appropriate proxy for current value in existing use or fair value. This is likely to be the case when both of the following conditions are met:

- a) A longer-term lease has no terms that require lease payments to be updated for market conditions (such as rent reviews), or if there is a significant period of time between those updates
- b) The current value in existing use or fair value of the underlying asset is likely to fluctuate significantly due to changes in market prices. This is more likely to be the case with property assets

10.2.3 Additionally, cost will not be an appropriate proxy for right-of-use assets under peppercorn leases.

10.2.4 To measure the current value in existing use of a right-of-use asset, a valuer should calculate the full replacement cost of the right-of-use asset. This should be done by identifying the current market rental value that could be achieved for existing use of the right-of-use asset and capitalising it for the full remaining lease term from the valuation date. This valuation should reflect the terms and conditions of the lease giving rise to the right-of-use asset and should reflect an assumption that the entity requires the use

the entire right-of-use asset. The Royal Institution of Chartered Surveyors (RICS) has published guidance for valuers consistent with the above [here](#).

- 10.2.5 If the cost model in IFRS 16 is used as a proxy for current value in existing use or fair value then this fact should be disclosed, including the classes of right-of-use assets within which it has been used (where appropriate) and the reasons why.
- 10.2.6 Finally, entities should bear materiality in mind when applying this guidance, just as in other areas of financial reporting. Part of the reason that, in most cases, the cost model in IFRS 16 is an appropriate proxy for current value is that there is not a material difference between the valuation produced by the cost model or the valuation produced by the revaluation model.