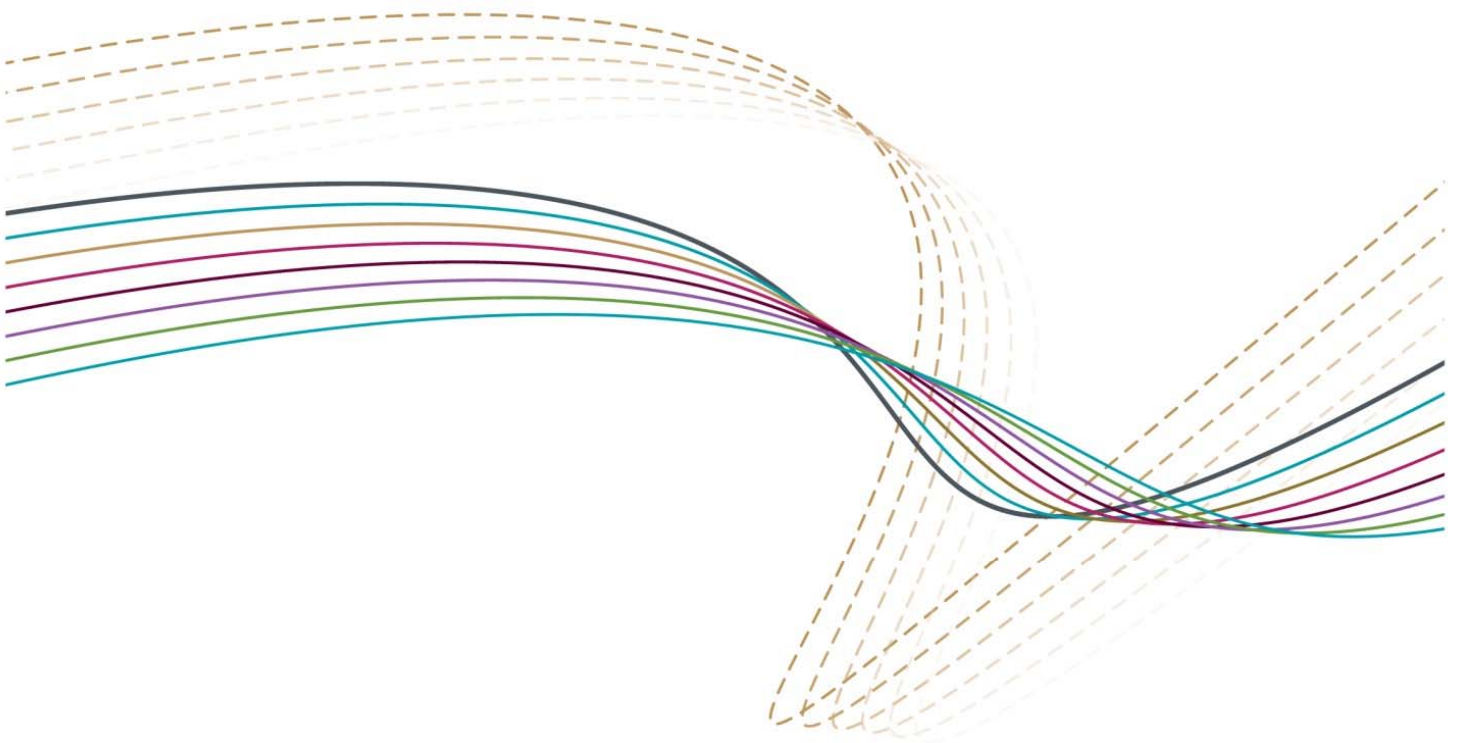
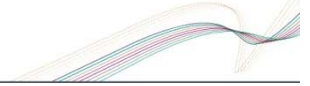


QUEENSLAND TREASURY

Queensland Leasing Approval Policy for Public Sector Entities

December 2019





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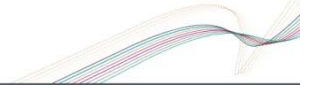
Translating and interpreting assistance

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1.0 Introduction

1.1 Purpose

A lease is a contractual arrangement which may be used to acquire or use assets. They may involve significant costs and potentially contain provisions weighted heavily in favour of the lessor.

Accordingly, Queensland Treasury has formulated this policy for the public sector regarding asset leasing and related issues, including:

- the new definition of a lease under AASB 16 Leases and how this differs from the treatment of leases under AASB 117 (now repealed)
- the powers of public sector entities to enter into lease arrangements, including the necessary approval requirements
- the responsibilities of public sector entities to ensure prudent financial management with regard to the lease vs buy decision
- bundling of services in lease transactions, and
- lease documentation and other associated issues.

1.2 Scope and Application

This policy is applicable to departments (including commercialised business units), statutory bodies, local governments and Government Owned Corporations (GOCs) (hereafter, referred to collectively as 'public sector entities'). However, in the case of GOCs, the application of this policy should be determined having regard to the *Code of Practice for Government Owned Corporations' Financial Arrangements*.

The policy applies to all leases, with the exception of:

- a motor vehicle lease obtained from Q-Fleet by a tied client, or
- public private partnerships (refer, instead, to the *Project Assessment Framework* (PAF) available from the Queensland Treasury website).

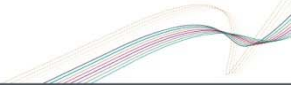
The policy does not provide information on the reporting of leases in agency financial statements. Australian Accounting Standard AASB 16 *Leases* (AASB 16) and the *Non-Current Asset Policies for the Queensland Public Sector*, published by Queensland Treasury, deal with agency obligations in this regard.

1.3 Financial and Performance Management Standard

Under section 20(3) of the *Financial and Performance Management Standard 2019* (FPMS), entities which are departments or statutory bodies for the purpose of the FPMS must comply with this policy.

This policy must be read in conjunction with the Queensland Procurement Policy (QPP), which is also mandated for departments and statutory bodies under the FPMS (section 14(b)(i)).

The PAF provides tools and techniques to assess projects throughout the project lifecycle. Section 18(4) of the FPMS provides that departments and statutory bodies must have regard to the PAF in preparing evaluations concerning the acquisition, maintenance or improvement of significant assets. If leasing provides the best value proposition for the acquisition of an asset, it is recommended that the PAF be read in conjunction with the Queensland Leasing Approval Policy (QLAP) (noting that QLAP does not apply to public private partnerships).



2.0 Identifying and Accounting for Leases

AASB 16 *Leases* became effective for reporting periods beginning on or after 1 January 2019 and has replaced AASB 117 *Leases*. The new definition of a lease under AASB 16 is “a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration”. A contract conveys the right to use an asset where there is an identified asset, and the customer/lessee has:

- a) the right to obtain substantially all of the economic benefits from the use of the asset, and
- b) the right to direct the use of the asset (i.e. direct how and for what purpose the asset is used).

AASB 16 introduces a single lease accounting model for lessees. There is no longer a distinction between finance leases and operating leases for lessees. Lessees are required to recognise on balance sheet a right-of-use asset (representing the right to use the underlying leased asset) and a lease liability (representing the obligation to make future lease payments) for all leases except for the following two exemptions.

1. Short-term leases – a short-term lease has a lease term of 12 months or less and does not have a purchase option. Queensland Treasury’s policy is agencies must apply the exemption for short-term leases of all classes of underlying assets.
2. Leases of low value assets – this exemption can be applied on a lease-by lease basis. Treasury mandates the “low value asset” threshold at AUD \$10,000. This threshold is applied to the value of the asset when new, regardless of the age of the asset being leased. For leases of low value assets (assets that cost less than \$10,000 when new), agencies may choose whether to account for them on balance sheet. Examples of low value assets include tablets, personal computers, small items of office furniture and phones.

When a recognition exemption is applied to a lease, the lease is accounted for by recognising the lease payments as an expense typically on a straight-line basis over the lease term.

For guidance on accounting for leases, refer to AASB 16 and the *Non-Current Asset Policies for the Queensland Public Sector*, which is published by Queensland Treasury.

There are some isolated examples where arrangements which would not have been classified as a lease under AASB 117 but constitute ‘right-of-use assets’ under AASB 16. It is therefore important to ensure that an entity’s finance area is involved early to ensure that all necessary legislative approvals are obtained before entering into the agreement. Retrospective approvals are not granted.

3.0 Approvals Required

The approvals required will depend upon the type of entity wishing to enter into a lease. In addition to the required approvals, public sector entities must seek financial advice from QTC before commencing the approval process where:

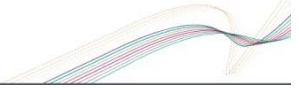
- the lessor is not a statutory body, a department or a GOC; and
- the total net present value of the rental payments exceeds \$2 million.

Entities must obtain all approvals before entering into a leasing arrangement. It should be noted that retrospective approvals are not allowed under the *Financial Accountability Act 2009* (FA Act) and *Statutory Bodies Financial Arrangements Act 1982* (SBFA Act). There are three levels of approvals required – substantive approval, legislative approval and State Borrowing Program approval. Entities must have received substantive approval and legislative approval before seeking State Borrowing Program approval.

The following section details the approvals required by entities when entering into leasing arrangements. Appendix A provides an approvals decision tree, summarising the requirements.

3.1 Substantive Approval

When a public sector entity decides to enter into a lease transaction, the transaction must be approved by an authorised person. For example: for departments, the lease transaction must be approved by the Accountable



Officer (or delegate), and for statutory bodies and GOCs, the lease transaction must be approved by the Chief Executive or Chairman (or delegate). Depending upon the nature and size of the proposed lease transaction, approval must also be obtained from Cabinet or the Cabinet Budget Review Committee. Evidence of substantive approval must be attached when seeking legislative approval.

3.2 Legislative Approval

When seeking a legislative approval, the public sector entity must explain the business case for entering into the lease transaction (including a copy of the lease vs buy comparison). The business case must clearly identify the cost premium¹ associated with using a leasing arrangement, and provide an explanation as to why incurring the cost premium should be accepted and how it represents value for money (refer section 4.4 for further details).

Note that the Treasurer has provided general approvals under the FA Act and the SBFA Act. Refer to section 3.4 for further details.

3.2.1 Departments

The financial powers and obligations of departments are determined by the FA Act. As leases are 'on-balance sheet', they are akin to a borrowing, meaning that departments must obtain the Treasurer's approval under section 71 of the FA Act before entering into any lease.

The FA Act and FPMS also contain general provisions which departments should consider when entering into lease arrangements, for example:

- section 62 of the FA Act requires departments to prepare financial statements in accordance with the prescribed requirements, including AASB 16.
- section 14 of the FPMS requires agencies to comply with the QPP.
- section 18 of the FPMS requires agencies to manage their assets in accordance with the asset management system which must provide for identifying, acquiring, managing, disposing, valuing, recording and writing off assets.
- section 18 of the FPMS also requires agencies to prepare an evaluation prior to acquiring, maintaining or improving a significant asset, and then reviewing the completed significant asset.

3.2.2 Statutory Bodies (including Local Governments)

Statutory bodies (including Local Governments) should refer to their enabling legislation to determine if they have the power to enter into a lease. If the body's enabling Act does not provide an express power to enter into a lease, its powers are limited to the powers under the SBFA Act.

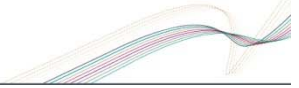
Section 32(1) of the SBFA Act defines *borrow* to include "raise and obtain, in any way, money, credit and other financial accommodation". *Other financial accommodation* is defined to include finance leases. Section 4 of the *Statutory Bodies Financial Arrangements Regulation 2019* (SBFA Regulation) provides that "an operating lease entered into by a statutory body, other than a grammar school or university, is a form of financial accommodation".

Under the SBFA Act, statutory bodies can borrow under either Part 5 or Part 7A:

- Part 5 – a statutory body can obtain the Treasurer's approval to borrow if it is listed in schedule 2 of the SBFA Regulation, or
- Part 7A – if unable to borrow under Part 5, a statutory body can seek the Treasurer's approval to enter into a type 2 financial arrangement (which includes entering into a lease).

For additional information about application of the SBFA Act, refer to the *Statutory Bodies Financial Arrangements Act 1982 Operational Guidelines*, available on the Queensland Treasury website. If the Guidelines do not assist, agencies should address any questions to their administering department.

¹ Cost premium is the ratio of the difference in net present value (NPV) between purchasing (i.e. NPV of loan financing the capital cost of the equipment) and leasing (i.e. NPV of lease payments), and the capital cost of the equipment (i.e. (NPV loan – NPV lease)/capital cost). QTC's lease vs buy tool is a valuable resource in calculating this premium.



If a statutory body intends to enter into a lease arrangement, and is required to obtain the Treasurer's approval pursuant to legislation, it is responsible for approaching its administering department with complete details of the proposal and requesting that the department seek any necessary approvals on behalf of the body.

The administering department is responsible for considering and assessing the proposal, and for determining whether it is appropriate for the approvals to be given (refer to section 4.0 of this document for further information). This determination would form the basis for an appropriate recommendation by the department to Queensland Treasury regarding approvals.

In any lease or tender process for the provision of a leasing facility, a statutory body and its administering department must ensure that the most cost effective financing option for the acquisition is adopted.

A statutory body must seek the necessary approvals under its own enabling legislation or the SBFA Act before entering into a lease transaction.

3.2.3 Government Owned Corporations (GOCs)

GOCs derive their financial powers from the *Government Owned Corporations Act 1993* (the GOC Act) and, in particular, their individual Statements of Corporate Intent. GOCs generally have the power to enter into leases. However, there may be restrictions on the permissible nature and type of leasing or other financial arrangements that a GOC may enter into, including, for example, in its Statement of Corporate Intent.

In exercising their powers, GOCs must refer to the provisions of the particular legislation or regulations by which they are established and the company's constitution.

If a GOC intends to enter into a lease arrangement, it must do so only in accordance with its corporate governance arrangements (e.g. a Board approved financial policy for leasing as contemplated in the *Code of Practice for Government Owned Corporations' Financial Arrangements*).

A GOC with a Board approved financial policy for leasing that has been reviewed by shareholding Ministers will enter into leasing arrangements in accordance with the Board approved policy.

GOCs without a Board approved financial policy for leasing must comply with this policy and the requirements of the GOC Act.

3.3 State Borrowing Program Approval

Leases, where the total net present value of the rental payments exceeds \$2 million and the lessor is external to Government, require approval under the State Borrowing Program for the particular financial year. For assistance on the State Borrowing Program, contact the relevant administering department or Treasury Analyst.

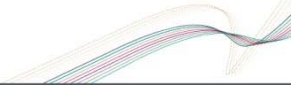
3.4 General Approvals

General Approvals have been granted by the Treasurer under the FA Act and the SBFA Act for departments and statutory bodies to enter into leases where either:

- the lessor is a statutory body, a department or a GOC; or
- the total net present value of the rental payments does not exceed \$2 million; or
- the lease being taken is for office premises

"Net present value of the rental payments" is to be determined in accordance with the calculation for a lease liability at commencement of the lease as outlined in Australian Accounting Standard AASB 16 *Leases* (as amended, updated and replaced from time to time).

The approvals were gazetted on 25th October 2019 in Queensland Government Gazette No. 56 (pages 277 and 278). Copies of the gazette notices are also provided in Appendix C.



4.0 Considerations before Entering into a Lease

4.1 Prudent Financial Management

Public sector entities must achieve reasonable value for money by ensuring their operations are carried out efficiently, effectively and economically. Entities must also comply with the QPP, which is based on six foundational concepts: putting Queenslanders first when securing value for money; working together to achieve outcomes; governance and planning; leaders in procurement practice; integrity, probity and accountability; and, advancement of government objectives.

When making decisions regarding the acquisition of an asset, public sector entities should satisfy themselves that the highest value for money alternative is used. An acquisition should represent the best return and performance for the money spent from a 'total cost of ownership' or 'whole-of-life cost' perspective.

Leasing arrangements cannot be used as a way to alleviate the impact of pressure on budget allocations. Failure to adhere to this principle has the potential to constrain future budget flexibility (by creating expenditure commitments in future years) and to significantly compromise Queensland's financial position.

The responsibilities of public sector entities require that a decision to enter into a lease be based on a detailed net present value and cost/benefit evaluation of the lease proposal relative to other acquisition alternatives.

In order to achieve consistency in the decision making process, it is essential that the evaluations are conducted on a uniform basis across all Queensland public sector entities. The approach outlined in this policy and the assistance available to public sector entities from Queensland Treasury Corporation (QTC) will assist in this area.

4.2 Government Fiscal Principles

One of the fiscal principles adopted by the Queensland Government is to target ongoing reductions in Queensland's relative debt burden, as measured by the General Government debt to revenue ratio. General Government Sector agencies should be aware that a lease borrowing is classed as debt in terms of this fiscal principle.

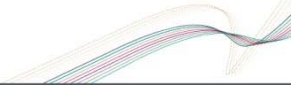
It is inherent in the fiscal principles that a public sector entity must not enter into a lease arrangement that does not represent the best value for money alternative.

4.3 Lease vs Buy Analysis

In general, when undertaking a lease vs buy analysis, it is assumed that the purchase will be funded through a loan (usually from QTC). However, where the agencies have adequate funds to purchase the equipment outright, consideration for outright purchase using internal funds must also be considered as part of the lease vs buy analysis. The agency must adopt the option that gives the best value for money, noting that the cheapest option does not always provide the best value.

All relevant costs must be included in the lease vs buy analysis. When calculating the cost of the different acquisition alternatives, including leasing and purchasing, care needs to be taken with regard to the following:

- There must be a careful perusal of a prospective lease agreement for any restrictive terms regarding matters such as the timing, method and cost of the return of the asset or equipment.
- Any costs involved in installing, operating, maintaining, removing, disposing of or returning an asset, must be taken into account.
- In the case of Taxation Equivalent Regime (TER) taxpayers, such as GOCs, any associated taxation and depreciation issues should also be taken into account.
- Lease proposals provided on a bundled basis should be unbundled to be compared with other quotes. When comparing bundled lease proposals, the service aspects of the bundled quote would have to be incorporated into the cost calculations of the alternative methods of acquisition. (For further information on bundling – see section 4.5 below).



- Failure to comply with lease requirements may result in unintended extensions of the lease term or additional upfront rentals. Where this occurs, lease payments over the extended time period may be calculated on the original price, rather than the value of the asset at the end of the lease, resulting in increased total cost. (For other important documentation issues affecting costs – see section 5 below).

Existing leases must be continuously monitored for their appropriateness. Appropriate asset management systems must be in place to remove the incidence of extensions of lease terms. However, extension may be allowed where a valid reason exists.

QTC has developed a lease vs buy analysis tool to assist public sector entities in evaluating the financing alternatives for the acquisition of an asset. This resource is available to public sector entities generally free of charge. Please contact QTC for information and advice about the use of this resource.

QTC's lease vs buy tool provides a simplified assessment of the leasing option. Assumptions in the model include:

- equipment cost
- residual value
- quarterly QTC borrowing rate – this rate is used for discounting the lease and buy options, and
- details of the lease quote – lease term, price, and payment terms.

The tool assumes purchasing of the equipment is funded through a loan. The net present value of the loan cash flows, including any relevant residual value, is compared to the net present value of the lease cash flows.

Appendix B provides further information about the lease vs buy analysis, including an assessment of advantages and disadvantages.

For a more detailed assessment and advice on a public sector entity's financing alternatives, QTC can be formally engaged by an entity for such advice. QTC may apply fees for this service.

For assistance in preparing a business case, agencies can refer to the guidance provided in the Project Assessment Framework, available from the Queensland Treasury website.

4.4 Lease vs Buy Decision

Public sector entities should only enter into a leasing arrangement when it represents the best value alternative when compared to other acquisition methods, including borrowing (where permitted by policy) or outright purchase. As detailed in section 4.3, the decision to enter into a lease agreement must be based on a detailed net present value and cost/benefit analysis.

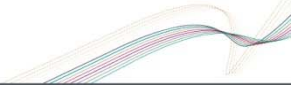
Where a statutory body wishes to undertake a lease proposal, it is the responsibility of the administering department to ensure that there are sound reasons for further consideration of the proposal. If the administering department is satisfied as to the appropriateness of the proposed lease transaction, justification must be provided in the application to obtain the appropriate legislative approval (refer to section 3.2.2 of this document for further information). The application for approval must be lodged by the administering department (on behalf of the statutory body) with Queensland Treasury, with complete details of all acquisition alternatives and the reasons for seeking the approval.

A lease transaction will represent value for money if the cost premium is commensurate with the associated risks. For public sector entities, a premium of up to 5% of the capital cost of the equipment is generally considered an acceptable cost for the risks associated with a lease transaction.

In cases where a lease carries a premium over the purchase option of greater than 5%, there should be sound reasons for further consideration of the proposed transaction. High cost premiums are often associated with non-competitive lease pricing or with items that are not suitable for leasing, such as equipment that does not retain any future value (e.g. IT software and cabling).

A decision to enter into a lease agreement should be made only when the net present value of future cash flows under the best value lease proposal is less than the net present value of cash flows under alternative methods of acquisition.

In instances where such difference is positive (i.e. there is no net present value benefit from leasing) and the lessor bears the residual risk in the asset, consideration should be given to whether such premium is commensurate with the residual risk transferred to the lessor.



A lease agreement will usually involve a greater level of administration than debt financing and the lessor may build a margin into the lease payments to reflect this. Lessees also tend to underestimate their administration and documentation costs. Therefore, it is common for leases to be more expensive than debt for lessees.

Because leases are effectively loan arrangements, the built-in cost of funds obtained from lessors is often greater than what could be provided under Government loan arrangement funding options.

4.5 Bundling of Services in Lease Transactions

Lessors often attempt to bundle additional services (maintenance being one of the most common) together with the finance component of their lease transactions under one costing and one contract. These services typically are not provided by the lessor, but by a third party, often under an agency agreement.

There are two main issues with the bundling of lease arrangements with additional services:

- lessees would not be in a position to assess costs or benefits and competitiveness of the services and the finance component of the lease independent of one another, and
- lessees could lose their ability to seek recourse to the service provider where a problem arises.

Public sector entities can address these concerns by carefully examining the cost of, and contractual relationship between, the lease component and each of the services in any documentation relating to the lease.

Accordingly, lease quotes should be obtained on an unbundled basis to allow for separate evaluation of each of the components (e.g. the lease of the asset and the maintenance of the asset). Also, the actual lease agreement/document should only relate to the finance component of the lease.

Where a lease proposal includes bundled services, the finance component and the bundled services should be documented separately or, alternatively, incorporated as distinct severable sections within the lease documentation. This will ensure that the bundling of different services with the lease does not restrict recourse to the individual providers of services.

Also, if a lessor wishes to provide a bundled quote on the basis that a single costing for a complete package of the lease and related services may be cheaper, the quote must include a breakdown outlining the proportions of the quote attributable to the finance component and each of the individual services. The main purpose of this is to identify the cost of individual services for the purpose of recourse under the lease documentation and, if applicable, to enable a net present value comparison between various bundled and unbundled quotes, rather than to require services to be provided on a separate contractual basis or to allow substitution of service providers.

4.6 Sale and Leaseback Arrangements

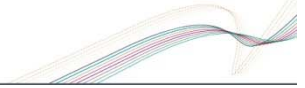
Where a public sector entity proposes to sell and lease back currently owned assets, the arrangement also must be the best value alternative. The net present value of the future payment obligations under a lease should be less than the net present value of the cash flow arising from the sale of the asset, adjusted for:

- (i) the present value of the asset's estimated residual value at the expiry of the lease calculated net of disposal costs (if any), and
- (ii) other costs incidental to the continued ownership of the asset which would otherwise be included in the lease payment (e.g. maintenance, insurance, etc).

In instances where such difference is positive (i.e. there is no net present value benefit from leasing) and the lessor bears the residual risk in the asset, consideration should be given to whether such premium is commensurate with the residual risk transferred to the lessor.

A sale and leaseback proposal may be the best value alternative where there can be benefits in the transfer of asset risk to another party. This is particularly so where there is high obsolescence risk or an unpredictable secondary market in the asset class (e.g. IT equipment).

In the event that a sale and leaseback proposal is the best value alternative, administering departments also will need to obtain all the necessary approvals, as outlined in this policy document. Where the entity proposing a sale and leaseback transaction is a department or part of a department (as distinct from a statutory body, local



government or government owned corporation), the entity must discuss and reach agreement on the application of the sale proceeds with their relevant Treasury Analyst.

4.7 Copy Cost Plan and Service Contracts

Suppliers of photocopiers and multi-functional devices may promote leases/rentals of their products as 'copy cost plans' and 'service contracts'.

Under a copy cost plan, equipment rental is charged on a cost per copy basis. All running costs (other than paper) are included in the agreed cost per page. Similarly, with service contracts, equipment rental is based on annual usage, with running costs (other than paper) included in the contract price.

Such transactions may be financially disadvantageous to the State because they can involve an aggregate cost in net present value terms significantly higher than the value of the asset (i.e. the capital cost of outright purchase of the asset).

Public sector entities should only enter into an arrangement such as a copy cost plan or service contract when it represents the best value alternative on a whole-of-life basis.

4.8 Short-term Hire Arrangements

Technically, a short-term hire is a lease agreement and must receive the appropriate approvals as such.

4.9 Insurance

Insurance requirements should be assessed during the preliminary stages of deciding whether to enter into a lease arrangement. The need for insurance may differ depending upon the lease contract.

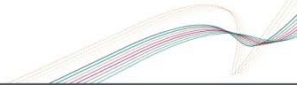
In undertaking the lease vs buy analysis, the cost of insurance must be taken into account as part of the whole-of-life cost of the asset.

5.0 Lease Documentation Issues

Lease contracts may contain clauses that either are inappropriate for public sector entities (such as requirements for insurance, onerous rights of entry and the right to use the lessee's name in legal actions) or could dramatically increase the cost of leasing for the lessee, thus affecting the outcome of the cost/benefit analysis.

Key documentation issues that should be considered during preliminary cost analysis, tender negotiations and subsequent drawdowns include:

- **Commencement Date:** the commencement date generally is the date the lease agreement commences and the date from which the lessee must pay lease rentals. It is common market practice for lessors to set the commencement date in a manner that maximises the amount of any interim rentals (see below).
- **Interim Rentals:** lessors commonly nominate payment dates that preclude the commencement of rental terms on days other than the specified payment dates. Where the lessee takes delivery of equipment prior to a nominated payment date, an interim rental (above the base lease rental) will be required.
- **End of Term Provisions (Inertia Rentals):** as with interim rentals, the end of term provisions in a lease can provide lessors with an additional mechanism for mitigating their residual risk in the leased asset. These provisions generally are drafted such that the lessee must continue to lease the equipment if the asset return provisions are not met.
- **Upgrades:** despite the claims of lessors, there generally are no specific provisions within lease documentation regarding the upgrade of leased equipment. Upgrading effectively involves a termination of the existing lease, after which the lessee leases back the upgraded equipment for an extended term. A termination in this manner can allow the lessor to make windfall profits.



- **Termination Value:** the termination value is the amount due from the lessee where the lease terminates prior to the end of the normal lease term. The major concern is that the lessee often has no method for verifying its calculation. Accordingly, potential exists for the lessor to exploit lessees when an early termination occurs.
- **Indemnities:** some lessors require lessees to provide non-standard indemnities relating to any changes in the treatment of the lease for tax purposes. Entities need to assess the potential impact of any indemnity entered into. In addition, an entity may require separate approval from the Treasurer to enter into an indemnity (e.g. under the SBFA Act).

The provisions within lease documents dealing with these issues can give the lessor the potential to either increase the cost of the lease to the lessee, or unreasonably restrict the lessee's ability to use, maintain or operate the leased equipment.

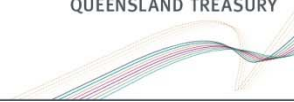
Where appropriate, it is recommended that agencies seek legal advice when negotiating or before signing a lease contract.

6.0 Roles of Queensland Treasury and Queensland Treasury Corporation

Public sector entities should be aware that officers of Queensland Treasury and QTC are available to provide necessary advice and tools to enable public sector entities to appropriately and consistently classify leases in accordance with AASB 16 and to assist public sector entities in calculating the best value alternative in the lease vs buy analysis.

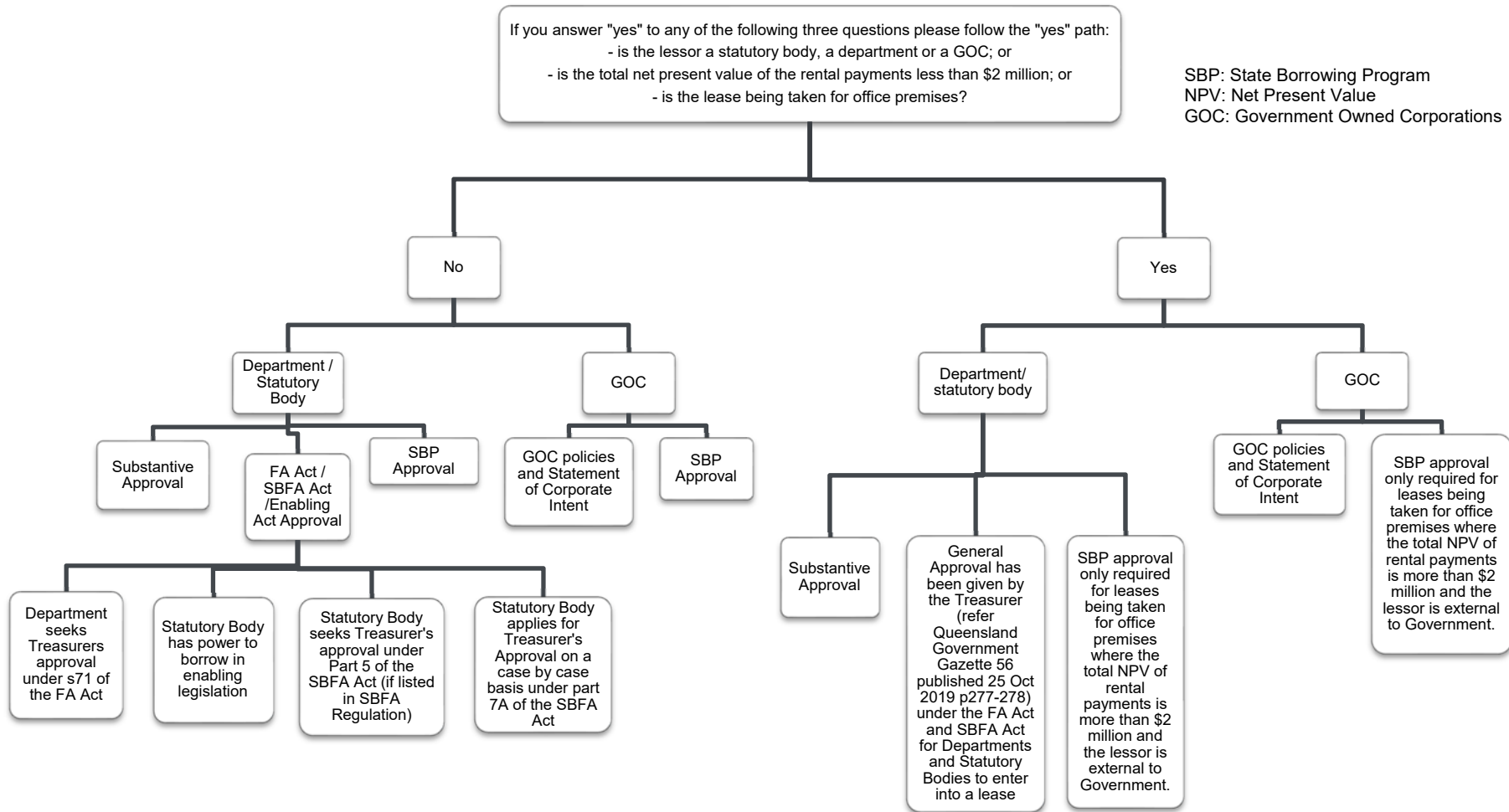
Any public sector entity wanting to enter into a lease, where the total net present value of the rental payments exceeds \$2 million and the lessor is not a statutory body, a department or a GOC, must approach QTC for financial advice. QTC can advise public sector entities on whether the financial terms of the lease transaction are generally acceptable and whether an alternative approach (e.g. outright purchase) is more appropriate. However, QTC's financial advice does not constitute an approval for a lease transaction. The ultimate approval will be provided by the Treasurer (or his/her delegate). QTC can also provide detailed financial advisory services under a specific engagement to be confirmed between QTC and the respective public sector entity. QTC may apply fees for this service. QTC is unable to provide advice in relation to accounting, audit, legal and taxation matters.

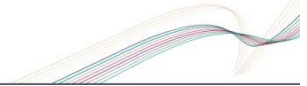
Queensland Treasury should be contacted as early as possible in any proposed lease transaction. The first point of contact at Queensland Treasury is the relevant Treasury Analyst. For accounting policy related advice, agencies may forward their queries to fmhelpdesk@treasury.qld.gov.au.



Appendices

Appendix A: Approvals Decision Tree





Appendix B: Lease vs Buy Considerations²

An entity's non-financial assets can be acquired either through outright purchase or leasing arrangements. When making a 'lease vs buy' decision, an entity must not only consider the financial implications of the options including the government's procurement criterion relating to 'value for money', but consideration must also be given to long-term strategic priorities and to qualitative factors. It is important to understand the implication of both options for the service delivery needs of the entity when determining the most appropriate option.

The table below outlines the advantages and disadvantage of buying and leasing options to assist entities in considering the most appropriate option for their circumstances.

Buying		Leasing	
Advantages	Disadvantages	Advantages	Disadvantages
Outright asset ownership	Major capital outlay up-front.	Cash-flow effective method for gaining access to assets as no major capital outlay up-front.	No asset ownership (unless stated in contract).
Assets can be modified at any stage to suit changing business requirements.	Entity incurs maintenance and repairs costs which typically increase as assets age.	Entity may not incur repair and maintenance costs as assets may fall under the warranty of the lessor over the term of the lease.	Assets may not be able to be modified to suit changing business requirements without lessor approval and attracting fees.
Asset can be replaced or disposed of at any time.	Entity incurs costs for the replacement or disposal of assets at the end of their useful lives.	The entity may not incur costs associated with disposal and replacement of assets at the end of their useful lives.	Lease terms are generally fixed so asset replacements and early terminations at the request of the entity may attract penalties and fees.
		Assets may be replaced more frequently, allowing the entity access to latest technology for no additional cost.	Potential capital outlay at the end of the lease term if purchasing the asset at the end of the lease.
		Possible access to knowledge, purchasing power and discounts offered by the lessor.	May result in a higher level of cash flows over the life of the asset.

² Appendix Source: Better Practice Guide on the Strategic and Operational Management of Assets by Public Sector Entities – Delivering agreed outcomes through an efficient and optimal asset base, Australian National Audit Office, September 2010

Appendix C: General Approvals for Leases

General Approval under *Financial Accountability Act 2009*

25 October 2019]

QUEENSLAND GOVERNMENT GAZETTE No. 56

277

Financial Accountability Act 2009
GENERAL APPROVAL UNDER PART 3 DIVISION 4

Approval

1. Pursuant to sections 40 and 71 of the FA Act, I grant a general approval for all departments to enter into a borrowing, being taking a Lease, where either:
 - a. the lessor is a statutory body, a department or a GOC;
 - b. the total net present value of rental payments does not exceed \$2 million; or
 - c. the Lease being taken is for office premises.

Effective Date and Expiry

2. This general approval will be effective from the date it is gazetted in accordance with section 40 of the FA Act, and remain effective until it is amended or revoked by a further instrument in writing.

Revoke previous approvals

3. This approval revokes all other approvals granted under Part 3 of the FA Act to the extent they relate to Leases from the effective date.

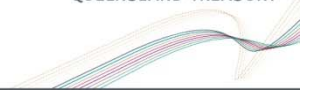
Interpretation

4. For the purposes of this approval, the following apply:
 - words and phrases in this approval have the same meaning as in the FA Act;
 - "FA Act" means the *Financial Accountability Act 2009* (Qld);
 - "GOC" as defined in the *Government Owned Corporations Act 1993* (Qld);
 - "Lease" means an operating or finance lease; and
 - "Net present value of rental payments" is to be determined in accordance with the calculation for a lease liability at commencement of the lease as outlined in Australian Accounting Standard AASB 16 *Leases* (as amended, updated and replaced from time to time).

Made this...^{20th}...day of ^{October}...2019



HON. JACKIE TRAD MP
DEPUTY PREMIER
Treasurer
Minister for Aboriginal and Torres Strait Islander Partnerships



General Approval under *Statutory Bodies Financial Arrangements Act 1982*

278

QUEENSLAND GOVERNMENT GAZETTE No. 56

[25 October 2019

Statutory Bodies Financial Arrangements Act 1982
GENERAL APPROVAL UNDER PART 9 DIVISION 2

Approval

1. Pursuant to sections 34 and 70 of the SBFA Act, I grant a general approval for all statutory bodies declared under regulation as a statutory body that may borrow under Part 5, to enter into a borrowing, being taking a Lease where either:
 - a. the lessor is a statutory body, a department or a GOC;
 - b. the total net present value of rental payments does not exceed \$2 million; or
 - c. the Lease being taken is for office premises.
2. Pursuant to sections 61A and 70 of the SBFA Act, I grant a general approval for all statutory bodies to enter into a type 2 financial arrangement, being taking a Lease which constitutes a borrowing for the purposes of the SBFA Act, where either:
 - a. the lessor is a statutory body, a department or a GOC;
 - b. the total net present value of rental payments does not exceed \$2 million; or
 - c. the Lease being taken is for office premises.

Effective Date and Expiry

3. This general approval will be effective from the date it is gazetted in accordance with section 70(1) of the SBFA Act, and remain effective until it is amended or revoked by a further instrument in writing.

Revoke previous approvals

4. This approval revokes all other approvals granted under Part 9 of the SBFA Act to the extent they relate to Leases from the effective date.

Interpretation

5. For the purposes of this approval, the following apply:
 - words and phrases in this approval have the same meaning as in the SBFA Act;
 - "department" as defined in the *Financial Accountability Act 2009* (Qld);
 - "GOC" as defined in the *Government Owned Corporations Act 1993* (Qld);
 - "Lease" means an operating or finance lease;
 - "Net present value of rental payments" is to be determined in accordance with the calculation for a lease liability at commencement of the lease as outlined in Australian Accounting Standard AASB 16 *Leases* (as amended, updated and replaced from time to time); and
 - "SBFA Act" means the *Statutory Bodies Financial Arrangements Act 1982* (Qld).

Made this...^{20th}...day of ...^{October}...2019

HON. JACKIE TRAD MP
 DEPUTY PREMIER
 Treasurer
 Minister for Aboriginal and Torres Strait Islander Partnerships

