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Dear Finance Director,

IFRS 16 reclassification and ring-fenced RDEL 20/21 budgets

I am writing to set out the process for agreeing the IFRS 16 reclassification and ring-fenced RDEL budget for 20/21.

IFRS 16 is a new lease accounting standard that will be adopted by the public sector from 1st April 2020. The budgeting treatment for leases will change in line with the accounting from this date, impacting on your budget requirements. HM Treasury committed to handling the change to IFRS 16 budgets as a reclassification exercise in the [budgeting guidance](#), issued earlier this year. This letter sets out the process for this reclassification adjustment.

In addition, at the Spending Review 2019 a detailed analysis of ring-fenced RDEL and depreciation was not conducted. We now plan to allocate ring-fenced RDEL budgets in more detail for 20/21. The below provides further detail on this and what input from you is required.

IFRS 16 reclassification

A template (annex A), covering the IFRS 16 reclassification, has been designed by HM Treasury and must be completed and returned by all groups or entities that submit an estimate (including Devolved Administrations). The template will help to ensure that the requested budget reclassification arising from IFRS 16 is reasonable, while still enabling you to meet your leasing commitments.

Only leases that were already incorporated into existing RDEL plans will be covered through the adjustment. Where justified by the return: i) CDEL will be provided for any new leases signed in 20/21, ii) ringfenced and non-ringfenced RDEL will be provided for both existing and new leases (although your requirement for non-ringfenced RDEL should decrease), and iii) any budget impacts in other categories, including AME, arising from the standard will also be covered. Our expectation is that this exercise will set your leasing Estimate for 20/21. In exceptional circumstances and when it is clear that a mistake was made in the reclassification (rather than a change in plans), we may be able to offer some flexibility at supplementary estimates.

Please return templates, at the very latest, by COP **Friday 17th January** to your spending teams. While we realise that this is a short turn around for a complex exercise, this will enable us to set baselines and carry out Spending Review 2020 (SR 20) on an IFRS 16 basis.

Further information on the SR and other spending considerations in regards to leasing will be disseminated in the run up to SR20 and there will be an opportunity to discuss this at FLG meetings in the new year.

Ring-fenced RDEL Budgets

A further template (annex B), detailing depreciation requirements, has been designed by HM Treasury and must be completed and returned by all groups or entities that submit an estimate (excluding Devolved Administrations). For most departments, we do not expect that we need to set impairment budgets at this stage, given impairments will only arise during the year. For the Devolved Administrations, these templates do not need to be completed, as we will apply the Barnett Formula. This will be applied subsequently to all returns being received and so submissions do not need to be adjusted by departments for the Barnett formula.

The template has been developed in order to clarify and standardise what information departments should return, to ensure their depreciation budgets are reasonable. However, please provide additional information where you believe this would be useful or where it further supports the budgets you have requested.

Please return templates, at the very latest, by COP Friday 31st January to your spending teams. We are able to offer an extended deadline for the return of annex B as this data will not feed into SR baselines. However, if you are able to return templates any earlier, please do so.

Further points to note

Please ensure that both returned templates have received Financial Director sign off and that you are satisfied that the budget requested is reasonable and in line with your leasing and depreciation requirements for 20/21. Returns will be reviewed and your teams may be contacted with further follow up queries.

The templates contain more detailed guidance, but should you need further support please contact your spending team. The templates and commission will also be forwarded on to your teams.

I thank you for your continued efforts and co-operation in regards to the above requests, that should ensure IFRS 16 is implemented successfully.

Yours sincerely,



CONRAD SMEWING