



## Policy Statement

Stanwell Corporation Limited (Stanwell) shall adopt the Queensland Treasury policy guidelines on leasing in the Queensland Public Sector.

## Scope

This policy will apply to all future lease transactions that Stanwell may consider from time to time.

## Objectives

- Ensure Stanwell is compliant with the Queensland Treasury policy guidelines on leasing
- Establish a review and approval process that requires both legal and finance sign off before any lease transaction is concluded.
- Establish procedures that ensure Stanwell undertakes prudent financial management with regard to the lease versus buy decision.

## Policy Outline

The Queensland Government has endorsed the adoption of guidelines prepared by Queensland Treasury on leasing in the public sector.

The essential feature of the policy guidelines are:-

- There must be prudent financial management in the lease versus buy decision.  
The Queensland Treasury Corporation (QTC) has developed a standard excel lease versus buy spreadsheet for use by government owned corporations. This spreadsheet which is retained by Stanwell finance must be used for all lease versus buy evaluations.

A decision to enter either a finance lease or an operating lease be based on a detailed net present value and cost/benefit evaluation of the lease proposal relative to other acquisition alternatives.

Leasing arrangements cannot be used as a way to alleviate the impact of pressure on budget allocations. There is no justification for entering into a leasing arrangement which increases the overall cost of an acquisition to the corporation.

All equipment lease proposals must be included in the annual capital budget approval process.

- Distinction between operating and finance leases.  
The relevant accounting standard requires leases be classified as either operating or finance. Finance leases must be capitalised and the leased asset recorded in the balance sheet and the corresponding future lease payments recorded as lease liabilities. Accordingly all lease documents must be considered by Stanwell finance to determine whether the transaction constitutes an operating or finance lease.



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  - Bundling of services in lease transactions.  
Lessors often attempt to bundle additional services (eg maintenance) together with the finance component of their lease transaction under one costing and once contract.
- + Accordingly lease quotes should be obtained on an unbundled and separate basis to allow for the separate evaluation of each of the components (eg. The lease of the asset and the maintenance of the asset)
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Where this is not possible and 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 document. This will ensure that the bundling of different services with the lease does not restrict recourse to the individual providers of the services.

- Sale and leaseback arrangements  
Any proposal to sell and lease back currently owned assets must be the best cost alternative.
- State Borrowing Program  
Commitment to a finance lease is analogous to a borrowing. Depending on the size of the lease transaction it may be necessary to seek approval under the State Borrowing Program to enter into the finance lease.

Stanwell Finance will determine whether such approval is required.

- Queensland Treasury Corporation (QTC) to be invited to tender.  
In any process for the provision of a lease facility the QTC must be invited to tender.
- Lease documentation  
There are key documentation issues that must be considered during cost analysis and tender negotiations (Refer appendix 1 for details). It is essential that all lease documentation be reviewed and signed off by Stanwell Legal.

All leases must be signed (executed) by the company secretary

## Responsibilities

To comply with this policy when considering any lease proposal:

- Reference should be made to the document 'Leasing in the Queensland Public Sector policy guidelines.
- A detailed net present value and cost/benefit evaluation of the lease proposal must be undertaken.
- The standard QTC lease versus buy spreadsheet must be used in the NPV evaluation.
- Stanwell Finance must determine whether the proposal is an operating or finance lease.
- Lease quotes should be obtained on an unbundled basis.
- QTC must be invited to tender.
- Stanwell Legal must sign off on the lease documentation.
- All equipment lease proposals must be included for approval as part of the capital budget approval process.



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## Communication Plan

At a minimum, this policy and any subsequent updates are communicated via email to appropriate personnel at the discretion of the policy owner.
  - + This policy is available electronically in Hummingbird.

## Review

This policy will be reviewed annually.

## Links



## ++ + APPENDIX 1

- + (a) 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).
- + (b) Interim Rentals - Lessors commonly nominate payment dates which preclude the commencement of rental terms on days other than the specified payment dates. Where a lessee takes delivery of equipment prior to a nominated payment date, an interim rental (above the base lease rental) will be required.
- (c) End of Term Provisions – As with interim rentals, the end of term provisions (Inertia Rentals) 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.
- (d) 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.
- (e) 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.
- (f) Indemnities - Some lessors require lessees to provide non-standard indemnities relating to any changes in the treatment of the lease for tax purposes.

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.