University Hospitals of Leicester NHS
NHS Trust

LEASING (UHL AS LESSEE) POLICY

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REVIEW DATES AND DETAILS OF CHANGES MADE DURING THE REVIEW

Not applicable

KEY WORDS

Finance Lease

Operating Lease or short-term lease

Capital Departmental Expenditure Limit (CDEL)

Revenue Departmental Expenditure Limit (RDEL)

Right of Use (ROU)

Public Expenditure System (PES)

His Majesty's Treasury (HMT)

1 INTRODUCTION AND OVERVIEW

This Policy sets out the financial reporting and governance processes associated with leases and the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 is the accounting standard that governs the accounting treatment of leases, which superseded the previous standard - IAS 17 Leases. The NHS deferred adoption of IFRS 16 until the financial year beginning 1 April 2022. The standard is adapted for application in the public sector by HM Treasury. At first glance, it's a complicated piece of accounting guidance which could potentially be difficult to navigate. On closer examination, however, it's fairly straight-forward to understand, but less so to implement.

The major change is that under IFRS 16 there is no longer be any distinction between operating and finance leases in the financial statements, as the standard introduces a single lease accounting model. The objective of the change was to make sure that all private and public sector organisations return information for leased items in a consistent way, making their existence more financially transparent. Previously, businesses could hold large financial liabilities on their operating leases but kept them off balance sheets, giving a skewed view of their overall financial status.

Although IFRS16 provided the catalyst to transfer the majority of leases 'off balance sheet to 'on' balance sheet, it should be noted that the Trust already had three significant finance lease arrangements, assessed under the previous IAS 17 standard, namely a managed medical equipment service contract, a managed IT contract, including supply of hardware and a renal dialysis contract.

This Policy sets out the implications of IFRS 16 for UHL operational management and accounting treatment of finance leases. The HM Treasury '*IFRS 16 Leases Application Guidance*' dated (January 2023).

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1129885/IFRS_16_Application_Guidance.pdf

provides detailed guidance the public sector adaptations and interpretations that have been reflected in this Policy.

2 POLICY SCOPE

This Policy provides guidance on the accounting treatment, financial reporting and governance arrangements associated with the management of the Trust's lease portfolio and in particular leases, which has been significantly impacted by the change in accounting standard for leases, IFRS 16, from 1 April 2022.

The Policy is intended to direct and guide managers and finance officers through the leasing process showing the need to:

- Identify (and show on balance sheet) the right to use an item as an asset and the obligation to make payments for it as a liability.
- Collate all the information on the leases – term, lease payments, end-of-term options and then extract and show separately any part of the payments which are not applicable to IFRS 16.
- This Policy also covers the Trust's accounting policy on leases applicable from 1 April 2022.

3 DEFINITIONS

3.1 IFRS 16

IFRS is the most significant change to lease accounting in over 30 years. This standard replaced the previous accounting standard IAS 17. Since its introduction on 1 April 2022, this new standard has had have a major impact on the financial statements of lessees of property and high-value equipment. IFRS 16 eliminates the distinction between operating and finance leases and imposes a single model aimed towards the recognition of all but low value or short-term leases (with some other exceptional excusions). The Trust defines low value as where the underlying asset has a value on adoption under £5,000 (in line with our capitalisation threshold) and short-term leases are where the lease term is more than 1 month and less than 12 months. Any lease which is not considered to be an IFRS 16 lease for these reasons will continue to be expensed in the Statement of Comprehensive Income (SoCI).

The assets underlying IFRS 16 Leases are known as 'Right of Use' (RoU) assets. Both the lease obligation and the value of the underlying asset RoU asset are recognised on the Statement of Financial Position. The rental expenses on IFRS 16 Leases previously recognised within the SoCI are superseded by the depreciation of the assets and the interest charges arising on the obligations.

A RoU asset and lease liability is recognised for all relevant leases. The initial value of the RoU asset consists of the present value of the minimum lease payments adjusted for any lease payments made prior to the commencement of the lease, any lease incentives received, any contractually certain costs (such as dilapidation) less accruals and prepayments associated with the lease.

The Trust has adopted the following practical expedients on transition:

- Not to capitalise a RoU asset or related lease liability where the lease expires within 12 months of transition date (subject to an assessment of whether a renewal is expected).
- To use hindsight in determining the lease term.
- To use HM Treasury public expenditure system (PES) rate as the appropriate discount rate for determining present value.

3.2 IFRIC 21

Determines when an entity recognises a liability when it conducts the activity that triggers the payment of a levy under law or regulation, for example VAT.

3.3 Implementation and assumptions

The definition of a lease also includes arrangements with nil consideration. Peppercorn leases are examples of these, they are defined by HMT as lease payments significantly below market value. The Trust does not hold any such leases.

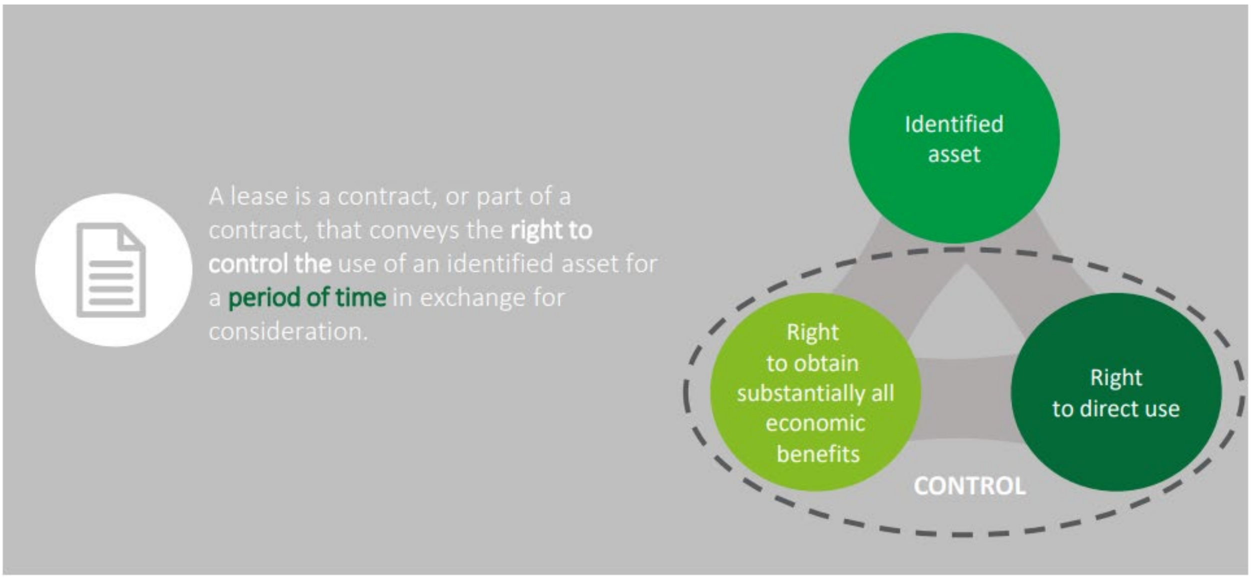
For the public sector, the IAS 16 cost model has been withdrawn, and assets are measured at current value in existing use (i.e. market value in existing use for non-specialised assets and present value of the assets remaining service potential for specialised assets). The cost model in IFRS 16 is used as an approximate for current value in existing use or fair value for most leases. This is because the rents payable are aligned to open market rates.

If UHL has control over, or right to use, an asset they are renting, it is classified as a lease for accounting purposes and, under the new rules, must be recognised on the company's balance sheet.

This no longer allows for significant financial liabilities to be held off-balance sheet, as permitted for certain types of leases (operating leases) under the previous rules. The objective is to ensure that all of their leased assets in a standardised way and bring transparency on companies' lease assets and liabilities.

3.4 Lease Contract

A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration' (IFRS 16, par.9)



Many leasing contracts contain elements other than the actual rental of the underlying asset (e.g. services such as maintenance). Under IFRS 16 these don't constitute part of the lease and need to be split out as a separate charge by the supplier. For example, a company leases a building and rental payments include fees for maintenance, cleaning or other ancillary services. These should be separated, as only the lease of the asset itself needs to be reported on the balance sheet.

3.5 Finance Lease

A finance lease (under IAS 17) may be viewed as an arrangement under which one person or body (the lessor) provides the money to buy an asset which is used by another (the lessee) in return for an interest charge and repayment of principal. The lessor has security because they own the asset. The 'economic' ownership of the asset – the risks and rewards of ownership – lies with the lessee, as they effectively have 'right of use over the asset.' An asset of this of this nature would be treated as 'on balance sheet' for the lessee.

3.6 Operating Lease

An operating lease (under IAS 17) is a contract that allows for an asset's use by the Lessee but does not convey ownership rights of the asset to the lessee. An asset of this of this nature would be treated as 'off balance sheet' for the lessee and expended as operating rentals through the I&E or revenue account.

3.7 Lessor

The business that loans the asset under a lease agreement is called the lessor. When the Trust acts as a lessor, it determines at lease inception whether each lease is a finance or operating lease. To classify each lease, the Trust makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease, if not then it is an operating lease.

Where the Trust is the head lessor the accounting should not be affected if the intermediate party enters into a sub-lease. When the Trust is the intermediate lessor, it accounts for its interest depending on the classification of the sub-lease. If the sub lease is classified as a finance lease, the Trust de-recognises the right of use asset (to the extent that it is subject to the sub-lease) and recognises a lease receivable. If the sub lease is classified as an operating lease, the Trust continues to recognise the right of use asset. Revenue from the sub lease is recognised over the term of the sublease.

The accounting policies applicable to the Trust as lessor are largely unchanged by IFRS 16 except for reviews of intermediate lessor arrangements. The Trust does not hold assets specifically to lease out.

3.8 Lessee

The organisation that leases the asset is called the lessee (which in this case is the Trust).

The Trust recognises a right of use asset and lease liability at the commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for initial direct costs, prepayments or incentives, and costs related to restoration at the end of a lease.

The cost measurement model in IFRS 16 is used as an appropriate proxy for current value in existing use for the majority of leases except for those which meet one of the following:

- A longer-term lease that has no provisions to update lease payments for market conditions or if there is a significant period of time between those updates; and;
- The fair value or current value in existing use of the underlying asset is likely to fluctuate significantly due to changes in market prices.

In all other cases the regular rent reviews in contracts mean that the cost will reflect the fair value of the lease.

4 ROLES- WHO DOES WHAT

- **Chief Financial Officer**

The Chief Financial Officer is responsible for ensuring that the all approved finance leases are included within the agreed capital plan and financial accounting records associated with finance leases are correctly transacted and accurately reported as in year capital expenditure.

- **Chief Information Officer**

Programme lead for the IT Capital programme, including prioritisation and delivery of intangible, tangible and lease projects within the approved financial plan.

- **Director of Estates and Facilities**

As the Programme lead for the Estates capital programme, the Director of Estates and Facilities has ultimate accountability for agreeing and signing off all property lease arrangements the Trust enters into, subject to approval of financial arrangements set out above, including ensuring all documents are legally compliant and best value is secured.

- **Capital Monitoring and Investment Committee (CMIC)**

All new or renewed Finance leases have an in year capital expenditure implication for the Trust's capital programme. All decisions on an any agreement to initiate or renew a lease arrangement therefore requires the prior approval of the Trust's finance governance committees, which involves a recommendation of CMIC to Trust Leadership Team and Finance and Investment Committee (FIC), before any contractual arrangement can be entered into. Once agreed, the lease is then included as part of the Trust's annual capital plan.

- **Clinical Management Group (CMG) or Directorate Leadership team**

The management team responsible for the oversight the asset ownership of the building or equipment being leased within one of their departments, directorates or service area.

- **Procurement Contracts Compliance Committee (PCC)**

Following governance approval, through CMIC and its inclusion within the capital plan, all proposed lease arrangement require the approval of PCC, to ensure that appropriate procurement processes, including competition and value for money considerations, consistent with Trust's SFIs and Scheme of Delegation have been followed to select the preferred lease provider.

- **Deputy Director of Finance**

Chair of CMIC and has overall responsibility for the financial management of the capital programme ensuring CDEL is delivered and schemes, including finance leases receive appropriate business case approval and correct accounting treatment. The postholder must ensure a structured process with appropriate controls is in place to identify and review each contract the Trust enters into to ensure (lease) components are properly assessed.

- **Head of Procurement**

Based on direction of the PCC, the Head of Procurement should ensure that a procurement contracts database exists, which is appropriately maintained, which will include all lease agreements, to allow an appropriate accounting treatment assessment to be undertaken.

- **Property Managers**

The Trust's Property Managers maintain the portfolio of leased properties that the Trust holds with lessors and is responsible for providing appropriate expert commercial property and legal advice to ensure the Trust enters agreements that optimise commercial standing and minimise exposure to risk.

- **General Manager Medical Physics**

Programme lead for the capital equipment programme, provieing professional leadership and advice in relation to the prioritisation and acquisition of new and replacement medical equipment, including those purchased outright and leased by the Trust.

- **Asset Owner**

Each leased asset has a designated asset owner within the Trust, with responsibility for ensuring the asset is owned, used and maintained in accordance with the contractual conditions of the lease.

- **Managers**

All managers have a responsibility and duty to inform the Deputy Director of Finance of all new leases or proposed renewal of leases, which will require approval as part of the capital plan, before proceeding to procurement stage.

5 POLICY IMPLEMENTATION AND ASSOCIATED DOCUMENTS - WHAT NEEDS TO BE DONE

5.1 Lease Principles

5.1.1 Lease contract

At inception of any contract, the Deputy Director of Finance must assess whether a contract is, or contains, a lease of an asset, implicit or explicit within the terms of the agreement. A contract is, or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration (IFRS 16, par.9). This includes assets for which there is no consideration. To assess whether a contract conveys the right to control the use of an identified asset, an assessment is made to determine whether:

- The contract involves the use of an identified asset.
- The Trust has the right to obtain substantially all of the economic benefit from the use of the asset throughout the period of use; and
- The Trust has the right to direct the use of the asset.

The policy is applied to contracts entered into, or changed, on or after 1 April 2022. At inception or on reassessment of a contract that contains a lease component, the Deputy Director of Finance allocates the consideration in the contract to each lease component on the basis of the relative standalone prices.

What changed under IFRS 16?

Previously, these were split into finance leases and operating leases. Generally, operating leases were not included on balance sheets but were simply accounted for via the Income and Expenditure Account. Under IFRS16, most equipment leases come on-balance sheet with the recognition of an asset for the right to use the underlying asset and a liability for future payments to be made on the lease as follows:

Service costs associated with maintenance, cleaning or other ancillary services have to be separated and reported separately (and charged to I&E) from the main asset lease payment, if they're included within the overall contract payment. In addition, the depreciation of the asset and interest on the lease liability have to be shown on the Trust's I&E account.

5.1.2 Recognition exemptions

The Trust (lessee) may make use of the following exemptions, in which case a RoU asset and lease liability are not recognised:

- A lease where the value of the item when new is low value, currently indicated as less than £5,000 (including irrecoverable VAT), consistent with the NHS capitalisation rules.

- A lease with a life 12-month or less and which does not have an option to buy the leased item at the end of the lease.

Where a supplier has the right to substitute an asset being used by the customer for an alternative asset, and they have an opportunity to gain a financial benefit from doing this, the contract is not regarded as a lease.

5.1.3 IFRS 16 Accounting Examples

- **Car lease**
  The lease period on a vehicle is less than 12 months and we do not have the option to buy the cars at the end of the contract. This lease would be classed as exempt under the IFRS 16 rules. That's a definite advantage when you consider that any maintenance, breakdown cover or anything else which is included as part of the car leasing agreement won't need to be calculated and reported separately, as has to be done with a long-term lease agreement.

- **Renting property or space**
  Scenario 1 - If the Trust rents a specific accommodation unit or car parking area in a self-contained building or similar – where it has sole access, we have the keys and we have exclusive use of the space during the life of the contract, then we have the right to use. This would need to appear on the UHL balance sheet as an asset and any facilities management costs would have to be extracted and separately reported in the UHL I&E accounts.

  Scenario 2 - Alternatively, if the Trust were to rent some space in a large warehouse where they did not have sole use of the facility and the landlord simply rented a proportion of the space to the Trust based on square meterage. If the area occupied is chosen by the landlord and can be changed only by the lessor, then that's not considered to be a right-of-use asset and isn't technically a lease under IFRS 16. The rental payments would simply be included in the Trust's income and expenditure statement and UHL would not need to bring it on- balance sheet under IFRS 16.

5.2 IFRS16 Accounting Framework

5.2.1 Underlying Principles

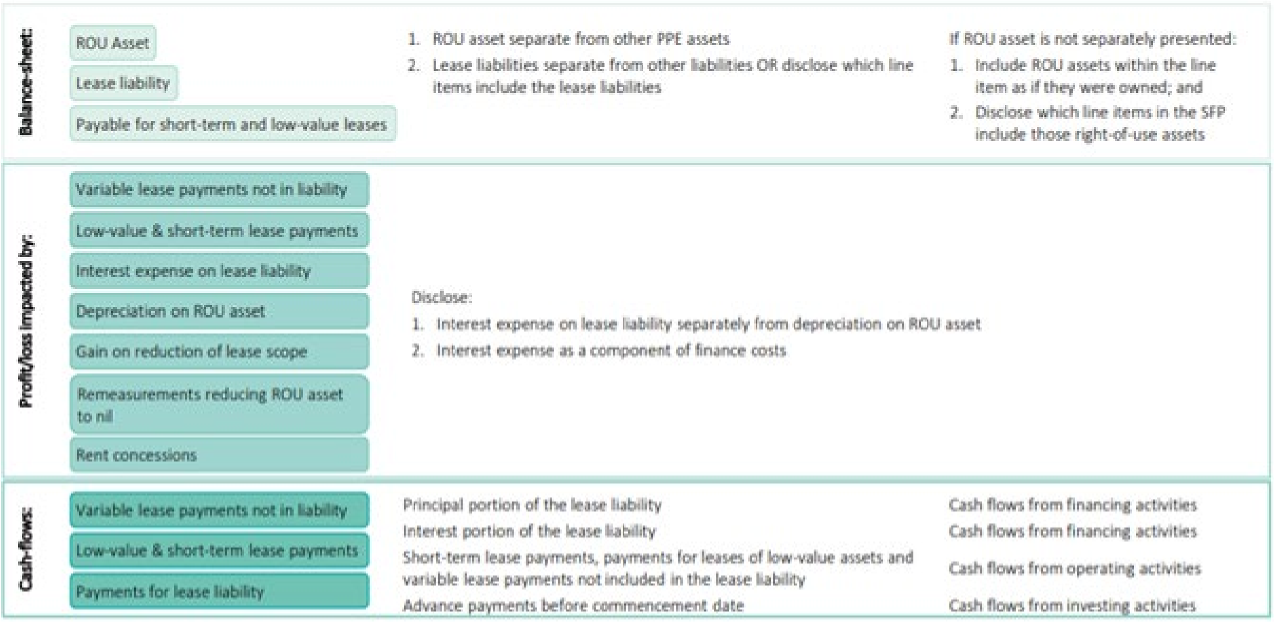
For lessees, budgetary and accounting impact of IFRS 16 means that most leases will be recognised on balance sheet, with the recognition of an asset, for the right to use the underlying asset on the lease, and a liability, for future payments to be made on the lease. Leases work in a similar way to the reporting of other non-financial assets (such as property, plant and equipment) and financial liabilities:

- Balance sheets – lessees will need to show their right-of-use asset as an asset and their obligation to make lease payments as a liability.

- I&E account – The right of use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The estimated useful lives of the right of use assets are determined on the same basis of those of property plant and equipment assets.

The cost measurement model in IFRS 16 is used as an appropriate proxy for current value in existing use or fair value, except for exceptional circumstances such as peppercorn leases, or where particularly long leases do not provide a viable calculated cost when compared to market value. In these circumstances the ROU is initially measured at cost, and then subsequently measured at current value in existing use or fair value.

Lease accounting presentations in relation to the balance sheet, I&E and cash flows are summarised below



- As interest charges are higher in the early years of the lease, the total impact on the I&E account is front-loaded even though rentals remain constant throughout the term of the lease.

- Rather than having to account for all asset leases individually, there is scope to combine these into a portfolio. This can only be applied if the lessor can demonstrate that there would be no financial advantage to them taking this approach.

- Payments regarded as 'contingent to the use' of the supplied asset (such as charges for wear and tear during the term of the lease) do not need to be included in financial reporting.

- At the commencement date, if an entity assesses whether the lessee is reasonably certain to exercise an option within its contract to extend the term of the lease or to purchase the underlying asset or not to exercise an option to terminate the lease, then it will need to calculate RoU asset value and lease liability based on the expected lease term and value.

- Repayments of lease liabilities are classified separately in the cash flow statement where the cash payments for the principal portion of the lease liability are presented within financing activities and cash payments for the interest portion are presented within operating activities. As indicated above, payments in relation to short-term leases and leases of low value assets which are not included on the balance sheet are included within operating expenses.

5.2.2 Lease Contracts Under 12 months

In the event that there is not a stated intention within the contract to extend a contract beyond the initial 12-month period in the lease and an extension is effectively enacted (even if new contract is put in place for the same asset) '*substance over form*' dictates that the lease should be capitalised and no longer expensed as a revenue item. This accounting treatment will be retrospectively applied to the start of the original contract (or 1 April 2022, in the event the contract was agreed before this date).

5.2.3 Enforceable period

An entity must determine the period for which the contract is enforceable.

5.2.4 Legal assessment

A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

5.2.5 Economic assessment

Broader economics of the contract needs to be considered and not only contractual termination payments. To note that the shorter the non-cancellable period of a lease, the more likely a lessee is to exercise an option to extend the lease or not to exercise an option to terminate the lease.

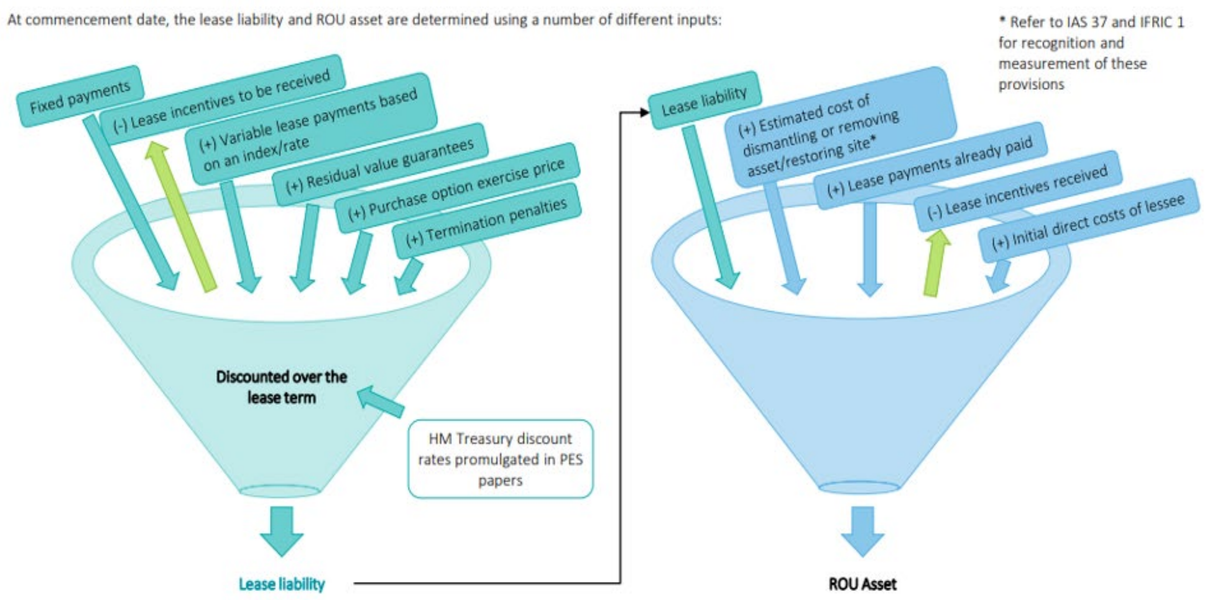
5.2.6 Initial measurement

At commencement of the lease, the lease liability and right of use asset are derived by a number of different inputs set out below.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments.
- Variable lease payments that depend on an index or a rate are treated as a fixed payment, and initially measured using the index rate as at the commencement date.
- Amounts expected to be payable under a residual value guarantee.
- The exercise price under a purchase option that the Trust is reasonably certain to exercise, lease payments in an optional renewal period if the Trust is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Trust is reasonably certain not to terminate early.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate provided by HM Treasury (HMT). The HMT discount PES rate is used, as a Supply-funded public sector body, undertakes any "borrowing" through a request for Supply from the Exchequer. There are no interest rates levied to supply-funded bodies and the interest rates charged upon the Exchequer do not take account of the reasons for the borrowing.



5.2.7 Remeasurement/Modification

A lease payment is **re-measured** when there is:

- a change in future lease payments arising from a change in the indices/price of the contract, such as agreed inflationary uplifts.
- A lease is re-lifed to reflect a more accurate re-assessment of the remaining economic life of the asset.
- a change in the Trust's estimates of the amount expected to be payable under a residual value guarantee, or,
- if the Trust changes its assessment of whether it will exercise a purchase, extension or termination option.

A lease **modification** is a change in the scope of a lease, or the consideration for a lease, that was not part of its original terms and conditions.

The Trust accounts for a lease modification as a separate lease if both:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

The remeasurement of lease liability involves recalculating the present value of the lease payments, using the discount rate. Changes in the lease term, lease payments, or residual value guarantees can trigger this recalculation. Any adjustment is recognised in the balance sheet and will also represents a charge to or a credit to in year capital expenditure depending on the impact of the remeasurement.

All leases under IFRS 16 are recognised on the balance sheet, with limited exceptions

Lease liability	Right of use (ROU) asset
= Initially recognised amount	**Cost model:**
+ Interest	= Cost (from above)
- Lease payments	- Accumulated depreciation (IAS 16)
± Reassessment of lease term	- Accumulated impairment losses (IAS 36)
± Remeasurements	± Remeasurements of the lease liability
± Lease modifications	
	Revaluation model
	= Revalued amount
	- Accumulated depreciation
	- Accumulated impairment losses (IAS 36)
	± Remeasurements of the lease liability
	If an ROU asset's class is measured on IAS 16 revaluation model, it can be applied to all ROU assets in that same class

5.2.8 Lease Extensions/Renewals

The Deputy Director of Finance assesses whether it is reasonably certain to exercise break options or extension options at the lease commencement date. This estimate determines the length of the lease term impacting the lease liabilities and right of use assets. This is reviewed if there is a significant event or significant change of circumstances that were not anticipated. Management's judgement includes the use of alternative options and the strategic importance of such options. Estimates include the length of the lease term, and the cost of a replacement property/equipment and any significant leasehold improvements that have been made. Reliance is placed on the professional judgement of estates staff, supported by information on corporate asset management plans, other business strategies, investment already made in the underlying asset, ongoing business needs and market conditions. The impact of these judgements and estimates are significant to the financial statements and are reviewed on a regular basis.

For equipment leases, the Deputy Director of Finance considers factors, such as business needs and costs compared to alternatives, to determine whether renewal is reasonably certain. Where leases include an option to extend, an assessment will be made as to whether to revise the lease length.

Options to extend or renew leases will largely depend upon the market practices and tax treatment. In certain circumstances the responsible manager for the lease may consider renewal or extension even if the lease itself is silent on extension or renewal options. Each decision on extension is different and will be driven by the needs of the Trust.

5.2.9 VAT Treatment

Irrecoverable VAT is not part of the lease liability and is not capitalised as part of the right-of-use asset. Instead, it is treated in line with IFRIC 21 and expensed at the tax point.

5.3 Financial Reporting Implications

5.3.1 Reporting Models

Deputy Director of Finance must go through three stages to be able to complete their IFRS 16 financial reporting. This process was required to inform the transfer opening assets at 1 April 2022, on transition, as well as determine the correct financial reporting required for in-year lease additions going forwards.

- **Stage 1** - Identification of all assets which will be defined as leases under the IFRS16 regulations (property, equipment, vehicles, etc).

- **Stage 2** - Collecting all the information on these leases – term, renewal options in the lease contract, rentals payable, interest rate of the lease (if available; for operating leases this will not usually be available) so the lessee needs to identify the incremental borrowing cost (the default position is to use the treasury PES discount rate as previously advised).

- **Stage 3** - Accounting for leases to recognise assets and liabilities – once all the information is assembled the calculation is relatively straight forward – acquiring the inputs is the most challenging stage.

Efficient lessors should be able to assist Deputy Director of Finance with this stage by anticipating needs and communicating proactively. To support the Trust in deriving the correct inputs, the Procurement Contracts Compliance Committee mandates the provision of this information as a contractual term before agreeing any leasing contract.

Separate accounting models should be developed, updated and refreshed annually for each lease arrangement over the life of the lease contract to support the Trust's accounting record. These models must clearly set out capital implications, depreciation and interest calculations and associated direct revenue costs (maintenance, consumables etc) to ensure a robust audit trail is maintained in support of the accounting notes and any NHSE information requests.

5.3.2 Capital and Revenue Implications

There are significant implications for the capital planning and reporting of finance leases. All finance leases are capitalised as capital expenditure at the point the contract is initiated, with assets value aligned to depreciated replacement cost (effectively based on the total discounted rental value for the asset implicit in the contract over the life of that contract). Finance leases therefore represent a call against the Trust's capital programme and the Trust's Capital Departmental Expenditure Limit (CDEL) as with any asset purchase outright. The CDEL will not be cash backed, as financing of the asset is provided through the leasing (borrowing) arrangement.

In summary an on-balance sheet has three impacts on resource and capital budget:

- as mentioned above, capital expenditure at lease commencement, for the asset recognised on-balance sheet;
- ringfenced resource expenditure, due to depreciation on the lease asset over the life of the lease; and
- non-ringfenced resource expenditure for the interest incurred over the life of the lease (as annual cash payments on the lease now score as working capital movements).

Overall, budgeting treatment should align with accounting treatment, and the details can be clarified by the Treasury guidance:

(IFRS_16_Leases_Supplementary_budgeting_guidance)

Other aspects to consider:

- a re-measurement or lease modification that results in either a reduction or increase in both the leased asset and liability will have a CDEL impact (refer 5.2.6).
- The Deputy Director of Finance applies IAS 36 impairment of assets to determine whether the right of use asset is impaired and to account for any impairment loss identified. An impairment test will only be necessary for an individual RoU where there are indicators of impairment at the end of the reporting period.
- IFRS16 requires dilapidation provision to be capitalised as part of the cost of RoU asset [IFRS 16, 24 (d)]. These dilapidation provisions should be treated as provisions in respect of capital expenditure for budgeting purposes.

5.4 UHL Governance Processes

5.4.1 Underlying Principles

Through the Chief Financial Officer, the Trust adopts the following lease management principles to ensure correct accounting treatment and stewardship of all lease contracts:

- Prior to entering into managed service agreements, ensure all draft contract payment schedules have been reviewed to consider the componentisation of charges and any potential changes required in light of potential accounting implications. This will be enforced through the design and implementation of a checklist to evidence that all the reviews have been performed by appropriate level of senior management.

- Ensure that all contracts and change requests are signed off by all parties in a timely manner, retaining evidence of these approvals.

- Maintain a sequential log of approved contract change requests for all lease agreements, including assessment of whether each impacts on the related model. Ahead of year-end reporting, detailed review of the leasing models should include a reconciliation of changes during the year, including communication with external contractors, to ensure the lease model has been updated.

- Design and implement protocol for capturing changes in the lease agreements, terms or leased assets to ensure any impact on lease calculations is factored into lease model updates.

- Review and retain a clearly document record of management's assessment of the appropriate accounting principles applied and tools used to support accounting treatment for material contracts, to include detailed review of outputs from external specialists.

- Consider the outcomes of the review of acquisition or enabling costs, to determine whether impairment of existing leased assets is required to align asset values to depreciated replacement cost.

- Review of the Fixed Asser Register (FAR) to identify and remove (the cost and accumulated depreciation of) assets which are no longer being leased by the Trust and ensure that the FAR and ledger are updated accordingly. This is achieved by including assets leased under finance leases in the annual asset verification and impairment review exercise.

- Utilise additional ledger codes, such that each different lease on the balance sheet has its own set of ledger accounts or project codes, thus facilitating transparent accounting of lease asset and liability positions.

5.4.2 Contracts Review

The Deputy Director of Finance should ensure that a structured process with appropriate controls is in place to identify and review each contract the Trust enters into to ensure (lease) components are properly assessed. The review should help to identify high risk contracts which meet the service concession definition or include components with variable accounting. As part of this review, goods and services should be componentised and clarity sought from counterparties where there is ambiguity. Evidence of the review should be documented and retained, including rationale and judgements required in determining accounting treatment.

In addition to 'new' contracts, the Deputy Director of Finance should undertake and annual review of the Procurement contracts database to ensure all potential lease arrangements are identified for review.

To support the lease contract review process and identify agreements that will 'coming to end ahead of time', the Deputy Director of Finance should maintain a register of lease agreements, which sets out the key details of each lease agreement.

5.4.3 Business Case Approval

As with any capital investment decision it is essential that the decision to enter into a lease arrangement is subject to a full prospective financial evaluation and appraisal **before** any contract terms are agreed and never in retrospect, in order to ensure value for money is demonstrated. This should be integral to the business case submission process and include consideration of 'lease v buy.'

Given all new lease arrangements entered into have a capital expenditure implication in year, it is essential that all such arrangements (even where considered as a ‘renewal’ of existing terms) are presented to the Capital Monitoring and Investment Committee for recommendation before onward consideration and approval by Trust Leadership Team and Finance and Investment Committee (FIC), before any contractual arrangement can be entered into. Once agreed, the lease is then included as part of the Trust’s annual capital plan. Following governance approval, through CMIC and its inclusion within the capital plan, all proposed lease arrangement require the approval of PCC, to ensure that appropriate procurement processes, including competition and value for money considerations, consistent with Trust’s SFIs and Scheme of Delegation have been followed to select the preferred lease provider.

A flow chart of the governance approval process for leases is presented in **Appendix A**.

5.4.4 Lease Models

The Finance Team must maintain standardised lease models/schedules for all leases, which are able to:

- detail the accounting entries for each agreement or contract and at summary level.
- disaggregate the accounting entries required over the life of the lease to an asset level of detail.
- capture and model the accounting treatment of any changes to leased assets (e.g. impairments, scrappage, rent increases, extensions etc.).
- plan and forecast future RDEL (interest and depreciation costs) and CDEL impacts for the Trust including budgeting.
- Provide an historic accounting and audit record.

5.5 The impacts of IFRS 16 leases

5.5.1 Benefits

While the IFRS reporting changes do fundamentally change the treatment of assets acquired through operational leasing, managers are likely to want to continue to consider leasing assets (rather than outright purchase) as the majority of the benefits remain:

- In cash terms. spreading a fixed cost over the lease term of the right-of-use asset rather than outlaying capital upfront.

- Providing 50% VAT recovery on the financing of certain assets (e.g. company cars).

- Offering protection against fluctuations in residual values and providing the opportunity to outsource operations and services.

- Sometimes integral to a wider fully managed service contract which includes maintenance of the asset and consumables supply.

- Allows the Trust to modernise and replace assets in line with technological developments.

- Replace assets at the end of their contracted term, which equates to the end of their economic life cycle.

5.5.2 Downsides

- Significant impact on the way the Trust finances appear on its balance sheet. Leasing equipment will appear to make balance sheets to be more asset-rich, matched by a bigger debt burden.

- Prevent the Trust extending the use of the asset (commonly known as 'sweating' the asset, as would be possible with an asset owned (and fully depreciated by the Trust), given that assets have to be returned at the end of their lease life and even if the option of purchase is provided, this will attract a 'residual' cost.

5.6 Adjustments recognised on adoption of IFRS 16

On transition to IFRS 16, the Trust recognised an additional right of use assets. The operating lease commitments were restated for arrangements not previously identified as finance leases, along with any material reconciling items such as adjustment for the impact of discounting and for the differing assessments of the lease term (the previous operating lease commitment reflected amounts payable during the non-cancellable lease period, whereas the IFRS 16 lease term reflects the Trust's assessment of the likelihood that it will exercise lease extension or cancellation options. When measuring lease liabilities, the group discounted lease payments using the 2022 PES rate of 0.95%.

7 Education and Training Requirements

Managers and staff may seek advice from the Deputy Director of Finance or Lead Accountant for Financial Reporting in the case of a query. This Policy will be included in the Trust's Policy Document Library for reference by staff as appropriate. There are no formal training requirements in relation to this Policy. Periodic training provided to Managers and programme leads, supported by external advisors as appropriate.

8 Process for Monitoring Compliance

An annual review will be undertaken by the Deputy Director of Finance to ensure reflect they reflect the latest regulations and remain fit for purpose

9 Equality Impact Assessment

9.1 The Trust recognises the diversity of the local community it serves. Our aim therefore is to provide a safe environment free from discrimination and treat all individuals fairly with dignity and appropriately according to their needs.

9.2 As part of its development, this policy and its impact on equality have been reviewed and no detriment was identified.

10 Supporting References, Evidence Base and Related Policies

10.1 National Guidance

- NHS Trust Group Accounting Manual

- Financial Reporting Manual (FReM) 2020/21
- HM Treasury IFRS 16 Leases Application Guidance (January 2023)
- HM Treasury IFRS16 - Supplementary budgeting guidance (December 2020).
- DHSC Group Accounting Manual IFRS 16 Supplement
- FReM IFRS 16 Leases Application Guidance
- NHSE IFRS 16 Supplementary Budgeting Guidance
- NHSE IFRS 16 implementation area
- HfMA IFRS 16 Leases Webinar 17 December 2021

10.2 Associated UHL Policy Documents

- Standing Financial Instructions and Scheme of Delegation

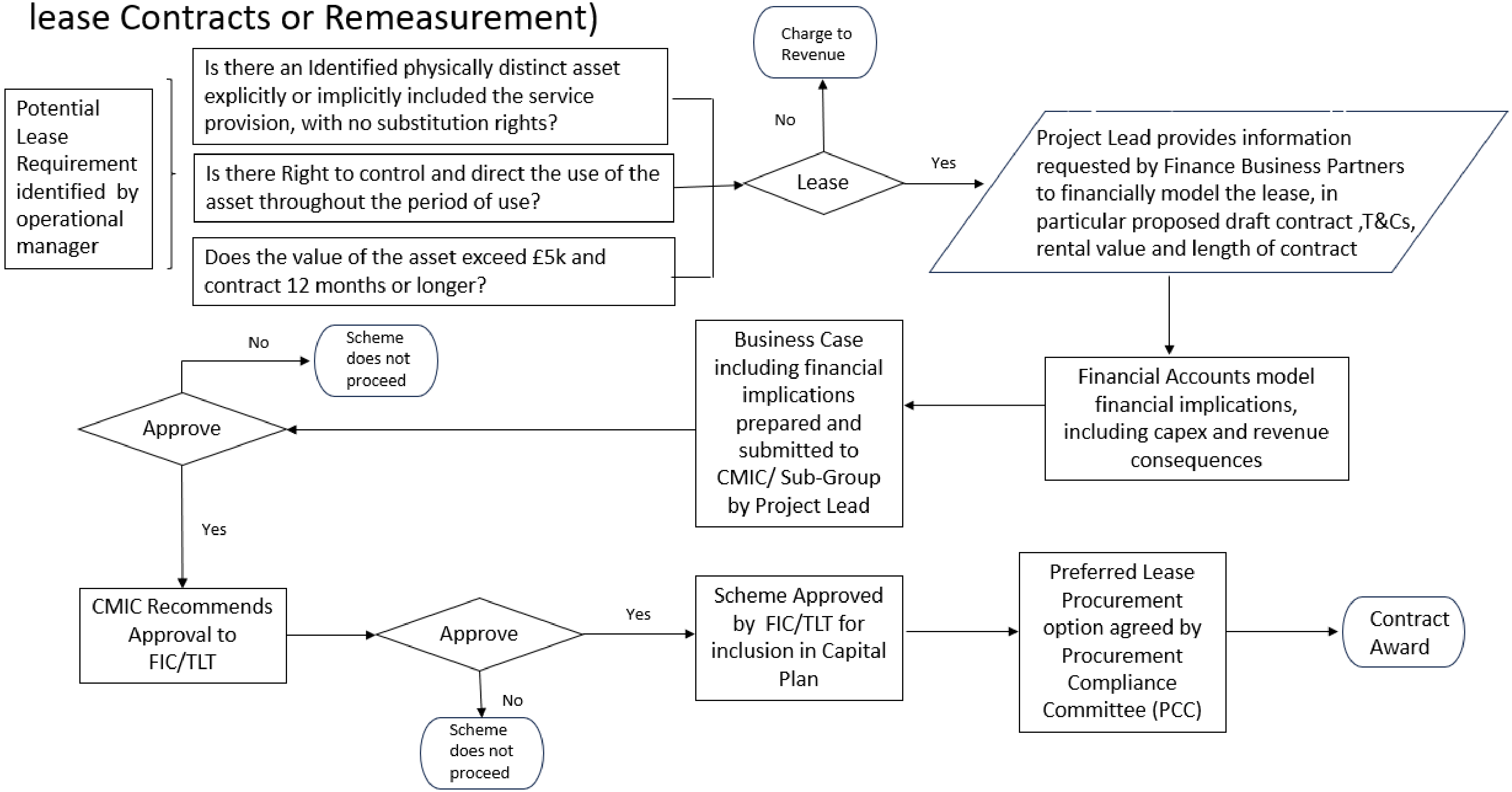
11 Process for Version Control, Document Archiving and Review

This document will be uploaded onto SharePoint and available for access by Staff through INsite. It will be stored and archived through this system.

This policy will be formally reviewed annually or in the light of any legislative or organisational changes.

APPENDIX A

Steps to identify and approve lease under IFRS 16 (New Contract or Renewal of Existing lease Contracts or Remeasurement)



APPENDIX B

POLICY MONITORING TABLE

The top row of the table provides information and descriptors and is to be removed in the final version of the document

Element to be monitored	**Lead**	**Tool**	**Frequency**	**Reporting arrangements**	**Lead(s) for acting on recommendations**	**Change in practice and lessons to be shared**
Compliance with Requirements	Deputy Director of Finance	Internal and external audit	Formal review every 3 years	Review by the Deputy Director of Finance to ensure reflect latest regulations and remain fit for purpose, with revised and updated Policy to be approved by Trust Board. Instances of non-compliance reported to the Audit Committee	Chief Financial Officer (delegated to Deputy Director of Finance).	Required changes will be identified by the Deputy Director of Finance, based on internal and external environmental scanning.