

IFRS 16: Leases

Implementation guidance: NHS providers and NHS England group entities

Last updated: 15 October 2021

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Introduction

IFRS 16 applies to the NHS from 1 April 2022, for the 2022/23 year. Transition adjustments will be made on 1 April 2022. This document explains the implementation of the standard for NHS providers and commissioners.

Much of the work commenced in the NHS in 2019 can be reused, and our implementation plan broadly follows that in 2019, but giving more time to NHS bodies for key tasks. Given the scale of the exercise, and the need to liaise with the Department of Health and Social Care (DHSC) and HM Treasury, not all details for the next year are finalised at the current time.

Updates to this document

15 October 2021	<ul style="list-style-type: none"> • Links included to published GAM supplement and FAQs
1 October 2021	<ul style="list-style-type: none"> • Document reissued for 1 April 2022 implementation



1: Sources of guidance

Information on technical aspects of the standard, in a 'Frequently Asked Questions' format is available separately on our IFRS 16 financial reporting webpage:

<https://www.england.nhs.uk/financial-accounting-and-reporting/ifrs-16/>. The contents of this webpage apply to both providers and commissioners

As well as the DHSC GAM, NHS bodies can also refer to:

Document	Link	Contents
IFRS 16 – the standard	At www.ifrs.org	The unaccompanied standard is available online for free after registration
HM Treasury application guidance	Here ¹	Comprehensive guidance which introduces key concepts of IFRS 16 and in particular explains interpretations and adaptations made by HM Treasury in implementing the standard
DHSC Group Accounting Manual (GAM) IFRS 16 supplement	Here ²	This explains the additions that will be made to the GAM for IFRS 16
NHS England and NHS Improvement's IFRS 16 FAQ	Here ³	Provides answers to questions on technical aspects of implementing the standard in the NHS
DHSC implementation training presentation	On our IFRS 16 webpage linked above – by mid-October	Training presentation to explain IFRS 16 and how accounting for leases changes. Designed to be used in internal training.
DHSC example lease register	On our IFRS 16 webpage linked above – by mid-October	An example lease register for lessees in spreadsheet form
DHSC lease accounting tool	On our IFRS 16 webpage linked above – by mid-October	A tool which helps calculate and summarise lease liability and asset values under IFRS 16 for each lease entered in the tool
DHSC worked examples	On our IFRS 16 webpage linked above – by mid-October	A series of worked example spreadsheets which illustrate the calculation of lease accounting entries and the impact on accounts in each scenario

¹ On this webpage: <https://www.gov.uk/government/publications/government-financial-reporting-manual-application-guidance>

² On this webpage: <https://www.gov.uk/government/publications/dhsc-ifrs-16-implementation-guidance>

³ On this webpage: <https://www.england.nhs.uk/financial-accounting-and-reporting/ifrs-16/#faq>

2: Context to IFRS 16

As is the case when IFRS 9 and IFRS 15 were implemented in 2018/19, HM Treasury has decided that IFRS 16 will be adopted without restatement: this means that when it is implemented in 2022/23, local bodies will make transition adjustments as at 1 April 2022. But this does not mean that NHS bodies can wait until 2022/23, as IFRS 16 is expected to have a material impact for many. NHS bodies and systems need to have assessed the impact of the standard for the 2022/23 planning round, and we will collect information this coming winter to feed into 2022/23 national estimates and Departmental spend limits.

IAS 8 requires entities to disclose an assessment in their 2021/22 accounts of the possible impact of implementing IFRS 16. All NHS bodies should be in a position to reasonably estimate this impact before 1 April 2022 and are therefore expected to make these disclosures unless immaterial. Information to support this disclosure at a sector level will also be collected from providers and commissioners as part of standard 2021/22 year end processes.

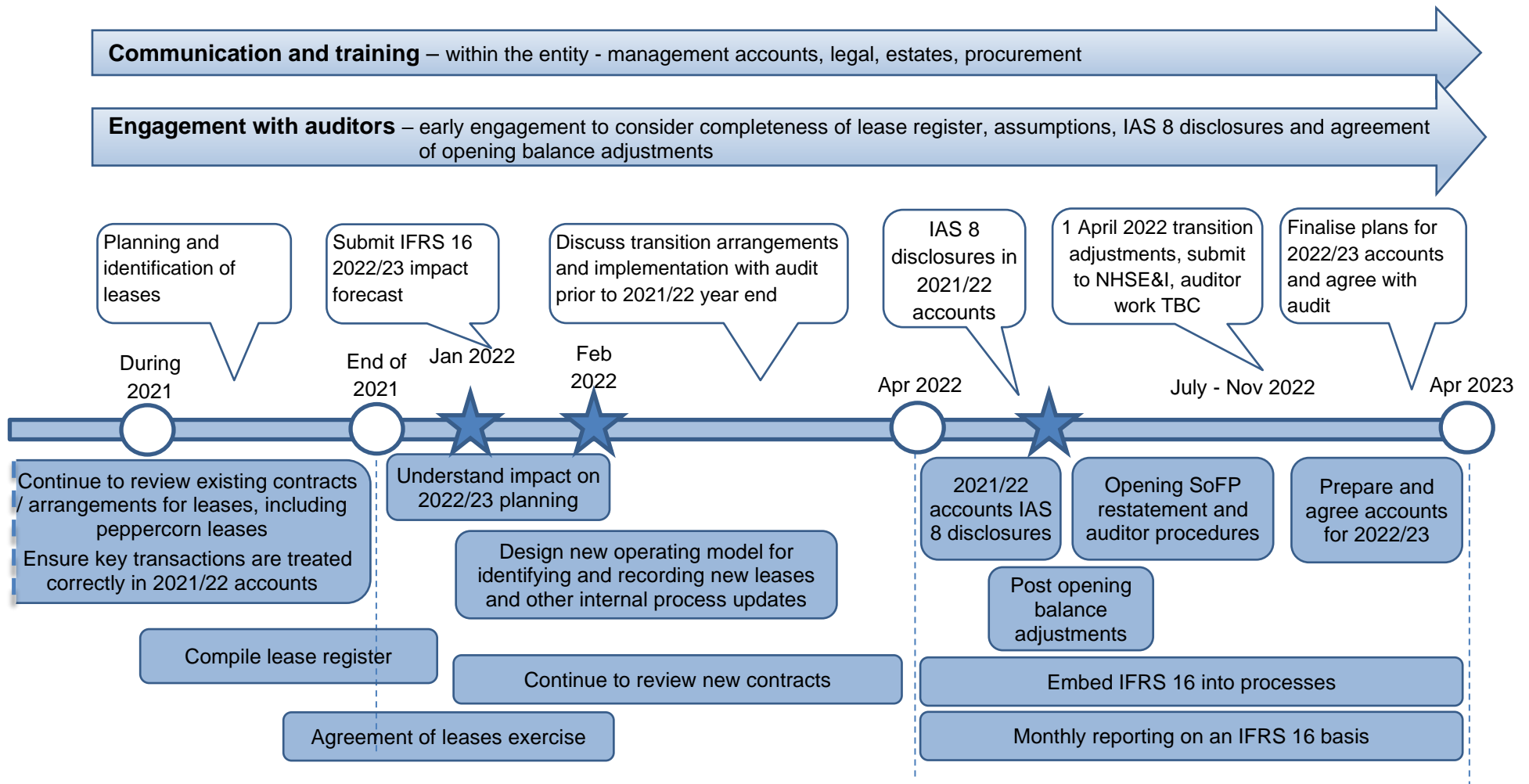
Feedback from the audit community on the implementation of IFRS 9 and IFRS 15 during 2018/19 was that in many cases implementation was treated as a post year-end statutory accounts adjustment without embedding the new standards into systems and processes at the start of the year. IFRS 16 will be material to many group entities and will have a significant impact on both capital and revenue budgets. Failure to embed the standard operationally ahead of April 2022 could have a significant impact on the entity's financial planning, monitoring and decision-making processes. Training and communication with other teams including management accounts, estates, procurement, and legal will be critical in embedding the standard.

NHS bodies should engage with local auditors early in their implementation plans and continue to do so as implementation progresses. This will help the entity to meet the expectations of audit and will enable local auditors to plan their work and avoid delays and late issues that may compromise timely audit sign-off of annual report and accounts.

The misalignment of lessee and lessor accounting under IFRS 16 creates additional complications for eliminations in the consolidated NHS England accounts, consolidated NHS provider accounts, DHSC group accounts and whole of Government accounts. NHS England and NHS Improvement are working with the Department to determine collection requirements for 2022/23 schedules. Providers and commissioners should be prepared to provide additional information relating to assets and liabilities arising from leasing arrangements with DHSC group and other government bodies. We anticipate collecting further information from lessors in particular to assist with this.

There will be an important impact of IFRS 16 on entities with schemes accounted for under IFRIC 12, including PFIs and LIFT schemes. This will not affect national budgets so is not expected to form part of the December 2021 collection explained in section 5 below, but for affected entities with material schemes this will be a significant piece of work affecting 2022/23 accounts. More information on this will follow during the autumn.

3: Overall timetable for implementation



More detail on specific steps to consider is provided in section 6.

4: Systems and organisations for 2022/23 impact forecast

Our January 2022 collection of estimates of the 1 April 2022 transition and 2022/23 impacts of IFRS 16 (see section 5 below) will be done on an organisational basis. We will ask CCGs to provide this information for themselves as a CCG, rather than on the basis of the future organisational form as an Integrated Care Board (ICB). The same principle will apply where providers are due to combine on 1 April 2022.

For CCGs and ICBs, further information on the leasing module in ISFE will be provided soon.

5: Data collection milestones

December 2021 to March 2022: Agreement of leases exercise

See section 6 below for details.

January 2022 (date TBC): IFRS 16 2022/23 impact forecast

We expect HM Treasury to set a deadline of late January for DHSC to provide information to support the 'Main Estimates' – the process by which Departmental spending limits will be set. While the process for this has not been confirmed, our current expectation is that national spending limits will be uplifted to reflect the incremental impact of IFRS 16. This means, for example, that a lease commencing in 2022/23 that would have been a finance lease under IAS 17 would not attract a national uplift in the capital departmental expenditure limit (CDEL) because this would always have been a CDEL charge regardless of IFRS 16.

We expect the main elements of this data collection for providers and commissioners to be:

- To inform capital budget planning:
 - Forecast capitalised value of new leases taken out as a lessee in 2022/23 under IFRS 16, together with IAS 17 version for that year (ie the capitalised value for those new leases that would have been finance leases under the old standard had it still applied)
 - Aggregate lease annual payment and total future cash commitment for new leases taken out in 2022/23
 - Forecast impact of any lease liability remeasurements (lessees) in 2022/23
 - For where the entity is a lessor, forecast book value in 2022/23 of any assets derecognised in order to become new finance leases – on both IFRS 16 and IAS 17 bases
 - Information would be split between property and non-property assets
- To inform revenue budget planning:
 - Lease costs charged to operating expenditure on an IFRS 16 basis in 2022/23 split between existing and new leases – under IFRS 16 this will be payments for short term or low value leases, and any variable lease payments
 - Lessee operating expenditure on an IAS 17 basis in 2022/23 split between existing and new leases
 - Interest expenditure in 2022/23 on leases on both IFRS 16 and IAS 17 bases, split between new and existing leases

- Depreciation and impairment charges in 2022/23 on leases on both IFRS 16 and IAS 17 bases, split between new and existing leases
- Information would be split between property and non-property assets

Subject to receiving the necessary information from HM Treasury and DHSC, we hope to make the collection form available to providers and commissioners in early December 2021, for submission in January 2022 (date TBC).

Financial planning 2022/23

We expect financial planning for 2022/23 will include the impact of IFRS 16.

April – May 2022: 2021/22 year end accounts

2021/22 year end accounts, and associated collection forms for providers and commissioners, will need to disclose the estimated future impact of IFRS 16, except where the impact is immaterial. Data from providers will be collected as part of the collection forms issued by NHS England and NHS Improvement, and the year end example accounts templates will provide an example disclosure.

July – August 2022: 1 April 2022 transition submission and preparations for audit procedures

In summer 2022 we will ask each provider and ICB to submit its 1 April 2022 transition adjustment, opening SoFP, updated impact forecast for 2022/23 and the completion of schedules to support potential audit procedures. More information will follow on this closer to the time.

Where there are changes in organisational form on 1 April 2022, organisations must ensure that appropriate working papers are handed over to successor organisations to support this work. ICBs and CCGs may wish to consider preparing this earlier, as the same time as the 2021/22 year end accounts.

September – October 2022: To be confirmed: Auditor procedures

Together with DHSC we will consider the merit of working with the local audit firms on a series of 'agreed upon procedures' for auditors to perform on the information submitted in July-August 2022.

November 2022: Final opportunity to update 2022/23 impact forecasts

To support DHSC's work on supplementary estimates and the impact of IFRS 16 on capital and revenue budgets for 2022/23, we will give providers and commissioners a final opportunity to update their 2022/23 impact forecasts, including amendments in light of auditor procedures if they occur.

6: Agreement of leases exercise

Prior to deferral of IFRS 16, DHSC, together with NHS England and NHS Improvement, designed an 'agreement of leases' exercise to cover leasing within the DHSC group. This exercise will be repeated for 1 April 2022 implementation. The purpose of the exercise is to allow entities to identify and agree where a lease arrangement exists between bodies within the DHSC group: it is not about agreeing values or numerical accounting entries, but discussions about lease terms and other details will support the rest of IFRS 16 implementation. We expect the exercise to operate as follows.

- 1) In December 2021 - National bodies provide a template to be completed by **lessors** providing details of intra-group leases.
- 2) The 'as at' agreement date will be **31 December 2021**.
- 3) In January 2022 – Lessors complete the template for intra-group lease arrangements and return it to national bodies, identifying the group counterparty for each lease
- 4) In February 2022 – national bodies collate the lessor statements and produce statements for distribution out to lessees: statements will list the assets which lessor organisations have recorded against them. These statements will then be distributed to group bodies. All group bodies will receive statements (including nil statements).
- 5) In February 2022 – group bodies as lessees to submit a response statement to national bodies, indicating whether they agree they are the lessee for the asset in question and adding any omissions.
- 6) In February and March 2022 – based on the above exercise, lessee organisations to contact lessor organisations to discuss and resolve differences.

Key message: please talk to your estates team and be prepared in January 2022 to be able to list out assets for where you are the lessor and another DHSC group body is the lessee. More details will be provided separately on this.

7: Specific steps to consider

Task	Detail	Time period
Review existing leases / contracts	<p>Use of the transitional provision for grandfathering the definition of a lease under IAS 17 and IFRIC 4 for existing leases at 1 April 2022 has been mandated across the public sector. This means that while the accounting for operating leases as a lessee will change, entities do not need to reassess whether an existing contract is or contains a lease.</p> <p>This assumes that previous contract reviews against leasing standards were robust. There is a risk that not all operating leases have been previously captured and auditors are likely to require evidence that such reviews were robust or have been revisited / reviewed.</p>	Complete by December 2021
Identify peppercorn leases	The measurement of peppercorn leases is adapted for the public sector with the right of use asset being measured at fair value or value in existing use. Where existing peppercorn leases were not recognised as finance leases under IAS 17, these may not currently be identified as leased assets.	Complete by December 2021
Collate required information for existing leases	<p>For existing leases, and all new leases (including peppercorn), information required for IFRS 16 measurement and disclosure should be collated in the lease register. This will include (but is not limited to):</p> <ul style="list-style-type: none"> - Remaining lease term - Lease variations - Information on current rents lease costs and rent reviews - Interest rate inherent in the lease - Other lease terms such as purchase options or termination penalties <p>This is likely to be substantially more information than was previously held on the lease register. Entities may want to consider what platform should be used for hosting this register.</p>	Complete by December 2021
Assess how the right-of-use asset will be measured	As explained in our technical FAQ, we expect that for many leases where the NHS body is a lessee, it will use the cost measurement model for measuring the right-of-use asset under IFRS 16. But for some leases, a valuation might be required to support subsequent measurement. It's important that NHS bodies consider if this will apply to any of their leases, and begin conversations with valuers if necessary.	Complete by December 2021

Task	Detail	Time period
Lease calculations / models	<p>Modelling of lease liabilities and right of use asset values should be prepared for existing leases. These will form the basis of 1 April 2022 implementation adjustments and subsequent accounting.</p> <p>These calculations should continue to be updated for new leases and changes to lease terms of existing leases ahead of 1 April.</p> <p>Where there is no interest rate implicit in the lease, the entity should use the most recently available HM Treasury discount rate.</p> <p>DHSC will publish a lease calculation tool, and a series of worked example spreadsheets to assist users with lease calculations and accounting. These will be available at https://www.england.nhs.uk/financial-accounting-and-reporting/ifrs-16/</p>	Complete by December 2021
Understand impact on 2022/23 planning	2022/23 planning templates will be completed on an IFRS 16 basis. This will include entry of forecast 1 April 2022 implementation adjustments to provide a forecast opening SoFP as well as capital and revenue plans on an IFRS 16 basis. Entities therefore need to have understood the impact of IFRS 16 on 1 April 2022 transition and 2022/23 figures.	Continuing – in advance of submissions below
Submit IFRS 16 2022/23 impact forecast	More details are provided in section 5 above	In January 2022
Agreement of leases exercise	More details are provided in section 6 above	December 2021 – March 2022
Embedding in systems	<p>Fully operationalising IFRS 16 will require process updates across the entity.</p> <ul style="list-style-type: none"> • Update contract and procurement processes to capture all new leases, lease renewals and amendments to lease terms. • Business cases where a potential lease has been identified will need to incorporate a financial model to forecast the budgetary impact. • Month end journal processes will need to incorporate monthly IFRS 16 lease movements. This may be automated from an integrated leasing module. • Month end reconciliations may need to incorporate additional reconciliations between the lease models / register and the general ledger. 	April 2022

Task	Detail	Time period
	<ul style="list-style-type: none"> Update/ implement processes for identifying right of use asset disposals / lease terminations. 	
Complete work on asset valuations for right-of-use assets	<p>For public sector bodies, the subsequent measurement of right of use assets should be consistent with the principles of subsequent measurement for owned assets. Many entities will engage a valuer towards the end of 2021/22 to update the measurement of estates for the 2021/22 annual accounts.</p> <p>For leased property assets where a cost model would not be an appropriate proxy for value in existing use, and in rare cases where the entity will move to subsequent measurement before 31 March 2023, this may be an opportunity to obtain the valuation. More information is provided in our FAQ document.</p>	April 2022
2021/22 accounts	All entities are expected to be able to quantify the estimated impact of adopting IFRS 16 ahead of April 2022 and therefore make the required 2021/22 accounts disclosures under IAS 8.	April 2022
2022/23 in-year reporting	Monthly submissions to NHS England and NHS Improvement during 2022/23 will be prepared on an IFRS 16 basis. Opening balance adjustments should be posted to the ledger as soon as practicable after finalisation of 2021/22 accounts. IFRS 16 lease accounting movements then need to be recorded on a monthly basis.	April 2022 – April 2023
2022/23 accounts	<p>Presentation and disclosure in the 2022/23 accounts for IFRS 16 should be considered ahead of the year end. We recommend that entities discuss and agree proposed disclosures with auditors during their interim audit.</p> <p>NHS England and NHS Improvement will issue example accounts for ICBs and providers for 2022/23.</p>	January – April 2023
Engagement with audit	<p>NHS bodies should engage with local auditors early in their implementation of IFRS 16. Local auditors should communicate their expectations in relation to implementation but as a minimum are likely to look at the following areas:</p> <ul style="list-style-type: none"> Assurance that there is a realistic implementation plan in place to be IFRS 16 ready for 1 April 2022 Evidence that identification of existing leases is accurate and complete Review (and possibly test) updated internal processes 	Continuous

Task	Detail	Time period
	<ul style="list-style-type: none"> • Review local judgements made in implementing the new standard (including measurement of right of use assets) • Calculations for lease liabilities • 2021/22 accounts disclosures of estimated impact of new standard (per IAS 8) • 2022/23 accounts disclosures (IFRS 16) <p>Entities should agree a delivery timetable with local auditors to ensure that issues are discussed and resolved early and will not impact the timely sign off of audited accounts (in both 2021/22 and 2022/23).</p>	