IFRS 16: PFI liability measurement

Frequently Asked Questions

Version: 19 October 2023

Change log

Date	Updates
15 December 2023	Question added: • A12 – Identifying the liability maturity analysis from the DHSC model
19 October 2023	Initial FAQs published

Introduction

This document answers frequently asked questions on the application of IFRS 16 lease liability measurement principles to PFI (and other IFRIC 12 schemes) liabilities by NHS bodies. It does not form part of any accounts direction to providers. If there is any doubt, a reading of the Department of Health and Social Care (DHSC) Group Accounting Manual (GAM) for 2023/24 and relevant provisions of IFRS 16 should take precedence.

This document will continue to be updated with new frequently asked questions as they arise.

DHSC guidance

The DHSC Group accounting manual for 2023/24 (published in June 2023) requires entities to measure liabilities arising from PFI, LIFT and other service concession arrangements in accordance with the measurement principles in IFRS 16 as mandated by the FReM. https://www.gov.uk/government/publications/dhsc-group-accounting-manual-2023-to-2024

The updated DHSC PFI accounting model and accompanying guidance is available on our IFRS 16 financial accounting webpage: https://www.england.nhs.uk/financial-accounting-and-reporting/ifrs-16/.

Contents

A) Accounting requirements

A1) When is PFI liability remeasurement effective from and do I need to restate previous years?

Application of IFRS 16 measurement principles to PFI liabilities is effective from 1 April 2023. The change in accounting policy is applied using a modified retrospective approach with the cumulative impact on the liability taken to the I&E reserve on 1 April 2023. Previous years are not restated. This is being applied from 2023/24 as there was a specific exemption from applying the relevant principles of IFRS 16 to PFI liabilities in 2022/23 so that entities could focus on the rest of IFRS 16 implementation for that year.

A2) What will the impact on my accounts be?

The specific provision of IFRS 16 that creates a change for PFI liability measurement is paragraph 42 (b) which requires entities to remeasure the lease liability where future lease payments have changed as a result of a change in an index or rate. Most PFI schemes have unitary payments which are linked to an index and an imputed lease liability is recognised. Under IAS 17, where the index moved, altering future payments, the lease liability was not remeasured therefore differences between the minimum lease payments measured at commencement, and the actual lease payment were charged to financing expenditure as contingent rent when incurred.

Under IFRS 16 the liability must be remeasured to include actual movement in the index up to the remeasurement date (ie future lease payments are remeasured at current prices). This will increase PFI liabilities on NHS provider balance sheets. Contingent rent will no longer arise but will be replaced with a charge to finance costs for the value of the remeasurement when future lease payments change as a result of a movement in the index. There will be no change to accounting for the non-lease components of the unitary payment (ie services and lifecycle). Question (A6) covers double entries.

A3) Is use of the revised DHSC model going forwards mandatory?

No. The original DHSC PFI model was used directly by many providers but in other cases served as an illustration for models developed by providers themselves. The DHSC PFI model has been updated to assist providers in understanding the impact of IFRS 16 remeasurement. Direct application of the model is not mandatory. In many cases providers will want to use this DHSC model and accompanying guidance to help understand the issue and apply this to their own model. Whether the DHSC model is used or a local model adapted, the provider should assure themselves that the model is suitable for their local circumstances and that outputs are accurate. As such we strongly recommend each affected provider should engage with their external auditors in advance of the 2023/24 year end.

A4) Are all PFI schemes impacted by this change?

Only on-balance sheet schemes that have an imputed lease component of the unitary payment which is index-linked will be impacted by this change. Where this is the case, entities will have previously been incurring contingent rent. For some PFI schemes, only the services and any other non-lease components are index-linked and no contingent rent has historically arisen. These schemes will not be impacted by this change.

A small number of schemes have previously been assessed as not being on-balance sheet locally or falling under a different accounting route (see box on page 93 of the HM Treasury [Financial Reporting Manual]). These schemes and the accounting decision for those schemes are not affected. If a scheme was assessed as being accounted directly under the leasing standards as a lease (rather than applying IFRIC 12 principles), then this will have transitioned to IFRS 16 'in full' in the previous year.

A5) What is an index or rate in the context of a PFI scheme?

Unitary payments for most PFI schemes increase in line with inflation. In most cases RPI is the relevant index used however some schemes may use other inflationary indices such as CPI or RPIX. Where guidance may refer to RPI, this is referencing the movements in whatever inflationary index is relevant for your specific scheme.

A6) What are the double entries for a PFI liability remeasurement adjustment?

On 1 April a catch up adjustment will be made to account for the difference between IAS 17 measurement and IFRS 16 measurement of the lease liability at 31 March 2023. The double entry for this adjustment is Dr I&E reserve, Cr PFI liability.

For changes in lease payments arising from movements in the index on or after 1 April 2023, the change in the lease liability measurement will be accounted for as Dr Finance costs, Cr PFI liability.

The application of IFRS 16 principles to the measurement of PFI liabilities is therefore different from direct application of IFRS 16 to leases. Remeasurements of leases under IFRS 16 are reflected in the measurement of the right-of-use asset. This is different: as explained below, PFI assets are not right-of-use assets. There is no adjustment to the value of the PFI asset as a result of the application of IFRS 16 principles to the measurement of the imputed PFI liability.

A7) How often do I need to remeasure my PFI liability?

The PFI liability is subject to remeasurement every time future lease payments change: therefore every time there is a movement in the index. In practice, the lease liability should be remeasured before each payment of the UP is made to the operator if there has been a movement in the index since the last payment. This will ensure that the next payment included in the lease liability is measured at current prices before that payment is deducted from the liability. This will ensure no contingent rent will arise. The DHSC updated national model reflects this process.

A8) Do I need to use a revised discount rate when I remeasure?

No. Paragraph 43 of IFRS 16 specifies that lease liabilities remeasured due to a change in index or rate should be discounted using an unchanged discount rate. The rate implicit in the lease was calculated in PFI models upon commencement of the contract (or at the refinancing date where refinancing has occurred). This rate in your existing model should therefore continue to be used.

A9) Do I need to reclassify my PFI assets on the SoFP?

No. IFRIC 12 schemes (such as PFI) are excluded from the scope of IFRS 16. These schemes are accounted for in line with the HM Treasury FReM as set out in the DHSC GAM. While IFRS 16 measurement principles are applied to the PFI liability, the assets are not right of use assets and are accounted for under IAS 16 as directed by the FReM / GAM. These assets must continue to be disclosed as PPE in providers' accounts.

A10) How do I update my PFI model?

To support the transition of PFI schemes on balance sheet upon initial application of IFRS on 1 April 2009, the DHSC published a nationally procured PFI model. DHSC has updated the national PFI model to incorporate remeasurement of PFI liabilities under IFRS 16 from 1 April 2023. Providers can either use this model directly or use the model and accompanying guidance to understand what changes need to be made to local models to reflect this change. Due to publishing restrictions on gov.uk, the updated DHSC model has been made available to local bodies on NHS England's IFRS 16 webpage and is available here: https://www.england.nhs.uk/financial-accounting-and-reporting/ifrs-16/

A11) Are there any transition disclosures to prepare?

HM Treasury has not defined any specific disclosure requirements on transition. The transitional disclosures within IFRS 16 apply to leases that were previously classified as operating leases only and therefore are not relevant to apply to PFI. Organisations should therefore ensure they are meeting the requirements of IAS 8 paragraph 28 which covers the impact of applying a new accounting policy.

NHS England will include a model disclosure to meet these requirements in the optional NHS provider accounts template to be published in February 2024.

A12) **Added 15 December 2023**: How do I identify the maturity analysis of the PFI liability from the DHSC PFI model?

Additional memorandum calculations were added to the DHSC PFI model on 15 December 2023 (V2) which calculate the figures needed for the PFI liability maturity analysis in Note 33.1 on TAC24.

If you downloaded and used V1 of the DHSC model, the additional functionality can be added manually to your local version by copying the formulas in column F and dragging them all the way to the right of the model. The additional calculations are limited to the following locations:

- *Workings tab – rows 149 to 171*
- *Semi-Annual statements tab – rows 114 to 122*
- *Annual statements tab – rows 114 to 122*

Some providers have previously compiled the maturity analysis of the PFI liability (gross and net) using the lease payments modelled in future periods within the PFI model. On an IFRS 16 basis this approach no longer works due to the impact of *modelled inflation arising in future periods which is not included in the closing liability. Please also note that the net liability due in one year differs to the 'Liabilities due within one year' calculated on row 56 annual statements tab. The latter is an approximation based on current period cash flows and is unchanged from the original version of the model: the accuracy of this is reduced following IFRS 16 implementation and should not be used for the maturity of the lease liability.*

B) Forms and reporting

B1) When will updated TAC forms be available?

Updated TAC forms will be available at month 9. Standalone TAC forms will be released in early December. Providers who volunteer to test the TAC forms will have sight of a test version in mid-November.

Changes to the TAC forms are not significant. However, it will only be possible to complete the TAC forms accurately on an IFRS 16 basis if the work has been done to understand the impact of the accounting policy change on the provider's PFI model. This work will need to be done in advance of completing TAC forms in January.

B2) When should I start reporting my PFI liability on an IFRS 16 basis in my PFR form?

Providers will be required to report PFI liabilities on an IFRS 16 basis for the first time at month 9. This will include the 1 April transition adjustment and FOT on the same basis. As the PFR form will not be updated until month 9 to align with changes in the TACs, providers should not attempt to report on this basis earlier than month 9.

B3) Do I need to include the PFI liability remeasurement in tab '15. Capital Schemes Analysis' for capital monitoring purposes?

No. Unlike leases, PFI liability remeasurements arising from movements in the index are not capitalised in the value of the asset. The movement in the liability is charged to finance costs and is not capital expenditure.

C) Budgeting

C1) Will this change impact on my system capital envelope?

No. PFI lease liability remeasurements arising from movement in the index are charged to finance costs and not capitalised in the value of the asset. There is no impact on capital outturn therefore no adjustments will be made to system capital envelopes.