PFI Transition to IFRS 16 Implementation Guide (PFITIG)

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Contents

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Objective: to show how the historical PFI model needs to be adapted to incorporate the relevant IFRS 16 requirements, and to compare the effects on accounting, budgeting and reporting and support a smooth transition.

Scope: the below guidance details the changes that users should expect in implementing an IFRS 16 basis to measure a PFI liability as well as detailing specific changes made to the historic PWC PFI model to incorporate the measurement of a PFI liability on an IFRS 16 basis. The model and associated guidance are made available to entities to assist with their transition and its use is not centrally mandated. Whilst we believe the model is fully compliant with FReM / GAM requirements bodies should ensure that they have undertaken appropriate management assurance procedures to ensure it is appropriate to their circumstances and they should consider consulting or engaging with their local auditors as early as possible in the 2023-24 accounts cycle.

Support available: colleagues monitoring the DH_GAM inbox are on hand to provide advice on how the new model and revised approach to measuring PFI liabilities interacts with the existing PFI data of an NHS body.

KEY AREAS	HISTORICAL PFI LIABILITY MEASUREMENT (IAS 17 model)	HOW THINGS SHOULD CHANGE TO COMPLY WITH IFRS 16 (IFRS 16 model)
GUIDES AND MANUALS		
Frequently used references; Accounting for PFI under IFRS – Guidance v3 (The technical guide or TG) Accounting for PFI under IFRS – model user manual and worked examples (the Model User manual) Financial Reporting Manual (FReM) DHSC Group Accounting Manual (GAM)		
DEFINITION OF TERMS		
Terms used in this guide are as defined in Appendix 3 of the TG. Any extra terms are defined in this guidance, the relevant standard or in the FREM or GAM.		
BACKGROUND		
1. The FReM	The Financial Reporting Advisory Board (FRAB) determined that with the FReM establishing an approach that accounted certain aspects of the arrangement as an imputed finance lease per IAS 17, it was logical for the treatment of such matters to transition to an IFRS 16 approach.	Reflect the effect of IFRS 16 on PFI liabilities from 1 April 2023 Calculate the catch-up adjustment on transition to IFRS 16 on 1 April 2023. Recognise the adjustment in accordance with the FReM with the opposite entry to the liability adjustment being to the relevant component of equity (reserves). Subsequent remeasurements of the PFI liability relating to changes dependent upon an index or rate are taken to finance costs.

2.	The GAM	The 2023-24 FReM published in December 2022 does contain the initial elements of guidance relating to the accounting requirements on transition and on subsequent measurement. The 23-24 GAM consultation draft was updated for this detail in chapter 4 and chapter 4 annex 5 of the GAM.	The 2023-24 GAM confirms the approach to accounting for the transitional adjustment per the cumulative catch up method: In a scenario in which the opening balance of the liability on 1st April 2023 is increased as a result of remeasurement to include indexation linked changes to payments for the capital element of the unitary charges that have taken effect since the arrangement commenced, the accounting entries are: DR I&E Reserve CR Liability The GAM also confirms the approach to subsequent measurement of index linked changes to payments for the capital element of the unitary charge from the effective date of 1 April 2023, in which adjustments to the liability will generate the following accounting entries. DR/CR Liability CR/DR Finance Cost
3.	DHSC's historical PFI model establishes the appropriate IAS 17 measures and accounting entries for PFI arrangements.	As the PFI liability was historically accounted for under IAS 17 the current model is not appropriate for use post 1 April 2023 without revision	Revise the DHSC PFI model and the procedures around it to enable accounting and reporting on an IFRS 16 basis. The model will continue to calculate an IAS 17 basis until the transition date as well as calculating an IFRS 16 basis from the start of the arrangement. The latter is to enable a cumulative impact om transition to be calculated. Entities should not restate prior years in their accounts on an IFRS 16 basis.
FINANCIAL PERFORMANCE REPORTING			
4.	Impact of IFRS 16		The effects can be seen mainly in the SoCI /SoCNE. Whilst contingent rent is eliminated, it is replaced by increased interest and PFI liability remeasurements. The table and graph in the annual statement tab of the revised model demonstrates this. See appendix 2 SoFP impact: Different liabilities will impact the net assets calculation as continuous lease liability remeasurement will continue to impact the liability position.

		PDC dividends driven by net assets. See the accounting calculations tab in the revised model**.**
BUDGET (RDEL) IMPLICATIONS		
5. PFI is budgeted for in line with Chapter 13 of HMT's Consolidated Budgeting Guidance	The model deals with the accounting rather than the budgeting for PFI – but for arrangements that are off balance sheet on a budgeting basis the actual unitary payment drives the RDEL scoring – per paragraph 13.31	No change
DETERMINING THE FINANCE LEASE RENTAL PAYMENTS / LEASE PAYMENTS		
6. Annual lease rental for the property paragraph 87 (TG).	According to paragraph 87 part of the Unitary payment is allocated to payment for the property – this represents the annual lease rental for the asset. In turn it is split between a repayment of the finance lease liability, an annual finance charge on the outstanding liability.	As part of an IFRS 16 approach the Unitary payment is also allocated in part to payment for the property. The approach to determining the payment as part of the historical model is unchanged, with the payment being a balancing figure derived from the unitary payment less operating costs and expensed and capitalised lifecycle costs.
7. The finance lease rental is based on real cash flows in accordance with paragraph 148 and 154 of the TG (see paragraphs in the next column).	*The finance lease rental will increase in cash terms as the contract proceeds due to the indexation of the unitary payment – how do we deal with this?* 148. IAS 17[11] is clear that when splitting the lease rental between the finance cost and repayment of the liability, only the 'minimum lease payments' should be used. Where the lease rental might increase in the future due to uncertain factors, the standard considers these increases to be 'contingent rentals' and requires them to be excluded from the amounts in the finance lease calculation. 149. Therefore, the finance lease calculation should based on the real cashflows and should not anticipate future increases in the unitary payment.	IFRS 16 does not change this aspect of the cashflows upon which the liability calculation is based, as future increases are not anticipated within the valuation of the liability, however the current position is continually updated to reflect historic inflation that has been built into unitary payments and consequently lease payments. IFRS 16.42.b requires the lease payment to reflect actual changes in the rates or index used to determine those payments. Therefore, where there is a change in index or rate the model will assess the difference between the contractual cashflows under an updated inflation rate compared to the contractual cashflows under the previous rate to determine the extent of the liability remeasurement.

8. Contingent rentals as defined in Appendix 3 of the TG are excluded from the minimum lease payment and recognised as an expense when they arise. Other pertinent paragraphs from the TG are in the next column	184. The contingent rental element is the additional amount payable through the unitary charge attributable to the finance lease component because of cumulative indexation since the start of the contract. It is effectively the balancing item as follows: Nominal Unitary Payment Less: Nominal Fair Value of Services, Nominal Lifecycle expenditure and Real terms finance lease rental = Contingent rental 150. IAS 17 requires that as and when contingent rentals are incurred, they should be recognised as an expense in the year in which they are incurred. 151. The contingent rentals due to indexation will only represent a part of the annual inflation increase to the overall unitary payment. The elements of the indexation that have been applied to the services and lifecycle elements are simply included within those amounts recognised as revenue or capital expenditure respectively. They are not therefore considered to represent contingent rentals under IAS 17, as they are non-lease costs. Note that to accurately account using the IAS 17 model the relevant RPI uplift for each period was required to be input to ensure that the level of contingent rent accounted for was correct.	There is no separate contingent rent element under an IFRS 16 measurement basis of the capital / property component of the unitary payment. The effect of this can be seen in the Cash allocation graph in the IFRS 16 Model as well as the tables and graphs inserted into the annual statement tab, shown in appendix 2 of this guidance. To ensure that lease liability remeasurements are accurately calculated, an entity needs to input all of the RPI uplifts since the arrangement commenced into the relevant lines in the operator model input tab. This requirement has not changed on transition to an IFRS 16 approach as the model has always required the actual RPI percentages to be input to generate the correct level of contingent rent on an IAS 17 basis.

MEASURING THE LIABILITY FROM INCEPTION TO TRANSITION ON 1 APRIL 2023		
9. Initial measurement (para 154 of TG)	The liability is measured in accordance with IAS 17 as the higher of the fair value of the asset and the present value of MLP.	As is explained in more detail in appendix 1 of this guidance, the model has been adapted to allow the liability to be recalculated and amortised in accordance with FReM applied IFRS 16 principles from the start of the PFI arrangement. Nuances around this are explained in the 'amortising the liability' section below. The latest model continues to calculate the liability from an IAS 17 basis in the accounting calculations tab to preserve the IAS 17 approach for periods prior to 1 April 2023.
10. Compare the liability under different measurement bases.		A summary table to compare the model outputs under IAS 17 and IFRS 16. This will allow an IFRS 16 impact assessment to be carried out per scenario. See Appendix 2.
11. Catch up or transition adjustment		The model compares the IFRS 16 derived opening liability for 1 April 2023 (and therefore closing liability as at 31 March 2023) against the IAS 17 calculated position for the closing liability at 31 March 2023. This calculation happens before any liability remeasurement takes place in the opening IFRS 16 period. This is part of the financial statements opening liability on 1 April 2023 and the I&E reserve is adjusted as the opposite entry to the movement on the liability. Appendix 1 provides further details. Note: If users are operating on alternative semi-annual periods such as 30/06 to 31/12 the model as designed will not incorporate a transition adjustment in to the amortisation of the accounting calculation liabilities automatically, so a work around to identify the closing and opening liabilities around the transition date will need to be incorporated in to your model separately
12. Processing the transition adjustment – Non-current Liabilities		Memorandum – Long-term liabilities: includes a line for the transition adjustment. The total is presented in the on balance sheet section of the accounting calculations tab, flowing through into the liability section of the financial statement tabs.

13. Processing the transition adjustment – Reserves		Reserves: the adjustment is presented as a separate line in the reserves section detailing impacts to the I&E Reserve

MEASURING THE LIABILITY AFTER 1 APRIL 2023

14. Reflecting subsequent changes in an index or rate used to determine the lease payment. This was not required under IAS 17.		In accordance with IFRS 16 para 42.b the model has been revised to recalculate the liability when an index or rate used to determine the lease payment changes, assuming the payment occurs in arrears. All payments are calculated using updated actuals, which reflect the historic inflation built into payment streams. This remeasurement does not require a revised financing rate to be calculated (16.43) so the rate implicit in the lease calculated at the beginning of the arrangement continues to be relevant. The real rate calculated originally by the goal seek macro in the controls tab of the historic PWC model should continue to be applied. The changes to the remeasured liability are taken direct to the SoCNE/SoCI. An increase to the liability would require; DR Finance cost CR Liability A decrease to the liability would require; DR Liability CR Finance Cost

AMORTISING THE LIABILITY

15. Pre-refinancing	The standard amortisation table was part of the accounting calculations tab. The liability is amortised to zero over the term of the contract from an established liability position that reflects the fair value of the asset or construction cost per the guidance of the TG.	Given the calculation of both IFRS 16 and IAS 17 positions in the revised model the amortisation of liabilities occurs in both the workings and accounting calculations tabs. The workings tab provides a full amortisation schedule on an IFRS 16 basis and the accounting calculations tab provides IAS 17 positions prior to 1 April 2023 and IFRS 16 positions post transition. The asset is subsequently measured per IAS 16 and the liability is adjusted

		subsequently via liability remeasurements as payments change dependent on changes in indexes and rates used to determine those payments.
		The different approaches to how the liability is subsequently measured will have an impact on the eventual transition position and level of interest generated from an IFRS 16 basis.
		However, note that as transition is applied via a cumulative catch up, the liability, whilst calculated on an IFRS 16 basis from the start of the arrangement, is presented on an IAS 17 basis in the accounting calculations tab and financial statement tabs until 1 April 2023.
		Note that the recognition of an initial IFRS 16 liability in the workings tab does not reflect any asset recognition phasing in the manner that the IAS 17 approach provides in the accounting calculation tab. The model assumes that all components of PFI assets have been fully handed over to entities by transition on 1 April 2023, so all ongoing rental payments relate to use of the full extent of the PFI asset/s. As such this divergence in approach to the phasing of initial asset recognition at the outset of the arrangement has no impact on the ongoing valuation of the IFRS 16 liability.
16. Post-refinancing	As above	As above .
		The memoranda at the bottom of the accounting calculations tab and semi and annual financial statement tabs collate pre and post refinancing positions presented in the accounting calculations amortisation schedules as appropriate.
		No remeasurement adjustment arises from refinancing as the change in unitary payment and therefore lease payment coupled with the reduction in financing rate to reflect the revised debt terms of the PFI provider, is equal to the contractual cashflows of the higher payment and financing rate on a pre refinancing basis.

WORKINGS TAB		
17. Pre-refinancing and Post-refinancing functioning of the workings tab	Workings apportions each Unitary payment to various components such as operating costs, capital and expensed lifecycle costs to separately show the contingent rent as the effect of changes in an index or rate on the minimum lease payment. The liability is calculated applying IAS 17 principles using the real rate applicable to pre-refinancing and post-refinancing.	The changes in functionality of the workings tab is described in more detail in **Appendix 1** and shows that After 1 April 2023 contingent rent stops. The liability is calculated applying IFRS 16 principles. The workings tab automatically calculates the liability remeasurement adjustments. After 1 April 2023 real cash flows in the workings tab are delinked from the accounting calculations tab as the contingent rent calculation is no longer relevant and the actuals are required to calculate the lease payment.
ACCOUNTING CALCULATIONS TAB		
18. Pre-refinancing and post-refinancing functioning of the accounting calculations tab	Provides the real cash flows used in Workings to calculate real minimum lease payment and contingent rent. Calculates the accounting entries to reflect how the PFI transaction is presented in the semi-annual and annual financial statements. In-built checks of completeness and accuracy supports the controls tab, in identifying whether any lease creditor remained unamortised or excluding from the calculation. The real financing rate is as previously calculated by the model and given in the controls tab.	IFRS 16 takes into account actual changes in lease payments that have occurred to date as a result of movement in an index. As a result, the accounting calculations tab amortisation schedule moves from using minimum lease payments calculated on a real basis at contract commencement for the IAS 17 periods to reflecting actual lease payments adjusted for movement in the index or rate in presenting the IFRS 16 position. Interest levels are higher because PFI liabilities contain remeasurements for changes in index or rates on an IFRS 16 basis. See the cash allocation chart in Appendix 2. Note the different presentation provided to the amortisation schedules in the workings tab and the accounting calculations tab in relation to post refinancing described under paragraph 16.

CONTROLS TAB		
19. Financing rate – semi-annual pre-refinancing and post refinancing	This rate is model generated	The financing rate is also used as the discount rate to measure the PFI liability under IFRS 16.
20. Goal Seek Macro	Per the Model User Manual, the goal seek macro will determine a relevant financing rate for the arrangement, given the calculated lease payments stemming from the various components making up the unitary payments, as well as calculating the relevant amounts for a residual interest scenario	Whilst the residual interest calculations will continue to work per the historical models expected use, the goal seek macro will no longer calculate the real rate determined at the inception of the contract. This is because in developing an IFRS 16 approach within the model we fully amortise an IFRS 16 liability in the workings tab, with a given financing rate, which then pulls through to the accounting calculation tab at the transition date. This changes the functioning of the model because if the workings and accounting calculations tabs work correctly, as is shown with the hypothetical scenario 1, no lease creditor difference is created for the goal seek to remove. Therefore, users need to overwrite the rate provided in column C of the controls tab with the initially derived rates for each scenario. If a lease creditor difference is generated in the IFRS 16 model per the column C in the accounting calculations tab, it identifies that a level of liability is missing from the calculations in the model. This is usually relating to the use of different semi-annual periods than those given in the revised model for which the formula in the revised model need to be adapted further to incorporate a transition position into the accounting calculations and financial statement tabs.
OPERATOR MODEL INPUTS TAB		
21. Indexation assumptions and calculations	User selects the annual or semi-annual rate relevant to their arrangements and a global indexation rate is assumed from the % input into the global inputs tab.	There is no change to the functioning of the model in this respect and the actual RPI index in the period needs to be input as is emphasised throughout this guidance.
22. Actual RPI index in period	For Scenario 1 input in row 48 the RPI at which amounts are invoiced semi-annually.	Input from row 48 the actual RPI for each period from the beginning of the arrangement. To prevent the model defaulting to the model assumed RPI index based on the global inflation assumed in the global input tab, where

| | | inflation may have been 0, input 0.000001%.

Additionally, input the inflation rates in the relevant rows for the relevant scenario.

To note an IFRS 16 approach to measuring the liability does not build in estimates of future cashflow changes so the model need to be updated every year for the latest changes in inflation. This will then revise calculations flowing through the workings tab, into the accounting calculations tabs and through the financial statement tabs as was previously the case with the historic model.

This needs to be done from the inception of the contract to comply with the FReM and to ensure that the historic actuals on which the IFRS 16 position is based, incorporate the correct level of historic inflation within the actuals presented. If you don't have the rates, you could calculate the percentage change in the unitary payments between two successive half-years |
|---|---|---|
| 23. Unitary payment and other input rows | Providing the real inputs for nominal calculations to be provided through the model to allow contingent rent to be calculated | No change |
| **SEMI ANNUAL FINANCIAL STATEMENTS TAB** | | |
| 24. Income statement (SoCNE / SoCI) | The income statement presents the economic effects of the transaction on its performance applying IAS 17 concepts, recognition and measurement basis. | Presents IFRS 16 effects of liability remeasurement as finance costs and incorporates the discontinuance of the contingent rent.

An increase in finance lease interest occurs. See Cash allocation tab. |
25. Statement of Financial Position	The statement of financial position presents the economic effects of the transaction on its financial position applying IAS 17 concepts, recognition and measurement basis.	The model reflects the effect of continuous remeasurement of the liability because payments are dependent on an index or rate, though maintains the original structure and format predominantly
26. Memorandum: LT Liabilities	Shows the liability's periodic movements.	Includes lease liability remeasurement and transition adjustments for IFRS 16.
27. Memorandum: Unitary payments	Shows the allocation of the unitary charge.	The unitary charge should remain the same given the commercials of the contract remain the same, but allocation of the unitary payment between components of the unitary charge will reflect the differences between an IAS 17

		and IFRS 16 calculation basis. Repayment of lease creditor and lease interest will have increased compared to the IAS 17 model memorandum and contingent rents are not calculated after 31/03/2023, so will be smaller than as calculated in the IAS 17 model.
28. Annual effective interest rates	Excluding contingent rentals Including contingent rentals This checks the finance charging rate: Interest charge in the SOCNE/ SoCI (Opening balance of the liability plus the additions in the year).	No change has been made to the calculations but as contingent rent is not calculated after transition to an IFRS 16 calculated liability the 'including contingent rentals' calculation has no relevance.
ANNUAL FINANCIAL STATEMENTS TAB		
29. Structure of the tab	The annual statements reflect the structure and calculations to combine the periods in the semi-annual statement	There is no change in the revised model in this respect. The changes covered in the semi-annual tab are mirrored in the annual statements tab
30. Memorandum: Unitary payments	Shows the allocation of the unitary charge. Analysis of cash movements – useful for checking the liability, interest and other elements. The analysis has been very useful in checking the accuracy of the setup of financial statements.	Same as above – but the revised model also incorporates a graphic demonstration of the changes in the unitary charge allocation memorandum. To compare the impact of your IFRS 16 basis model compared to your IAS 17 model, copy over from your historic model the relevant components in to the right hand side column of the table below the memorandum. Whilst the descriptions have been revised throughout the model, the structure of the memorandum is consistent with the historic model. There should be offsetting differences between contingent and lease creditor positions.

Appendix 1: Explaining the IFRS 16 PFI Calculations

To be read with: "Accounting for PFI under IFRS16 - MASTER PROTOTYPE v3.1.xlsm"

OBJECTIVE

31. Ensuring user understanding as to the mechanics of the revised model developed to provide consistent underlying measurements and accounting calculations for a PFI liability measured on an IFRS 16 basis.

BACKGROUND

32. The FReM 2023-24 (10.1.64) requires PFI liabilities on 1 April 2023 to be calculated on IFRS 16 basis reflecting actual indexation factors in actual payments since the inception of the arrangements. The FReM's cumulative catch-up approach will result in the corresponding debit or credit to the movement in the value of the liability on 1 April 2023 being recorded on transition as an adjustment to reserves. Comparative information is not restated.

Discounted present value of unpaid lease payments as the value of the liability

33. **Principle 1**: The opening PFI liability is measured as the net present value (NPV) of the lease payments that are not paid on that date using a discount rate per IFRS 16.26. This principle is applied in subsequent measurements.

The financing rate as the discount rate

34. **Principle 2:** Being the annual financing rate that produces a constant finance charge on the outstanding liability over the period of the arrangement, the finance rate is the discount rate. The finance rate is determined at inception of the arrangement and is constant unless varied by refinancing the obligations under the arrangement.

The real finance rate

35. The historical model initially calculated the real finance rate as the rate that amortises the initial PFI liability at the inception of the contract to zero. This rate continues to be employed when calculating and amortising the liability on an IFRS 16 basis.

Interest calculations

36. **Principle 3**: Interest is calculated by multiplying the appropriate finance rate by the sum of the opening balance of the liability plus any additions or remeasurements in the period.

Actual unitary payments

37. **Principle 4:** Actual unitary payments reflect the selected inflation factor derived by the operator model input tab. Payments occur in half-yearly instalments in arrears. In operating either the historic IAS 17 model or the revised IFRS 16 model, the actual RPI for each period should be input. This should be completed for all prior periods and the current period.

38. The IFRS 16 workings in the model identify changes dependent on an index or rate by calculating the impact of movements in inflation rates from one period to the next. The change in inflation from one period to the next is calculated in the workings tab.

Payment periods and discount periods

39. **Principle 5**: The payment periods are counted in half years and NPV formula calculate the present values of the remaining contractual cashflows

Capital value

40. **Principle 6**: The carrying value of the liability should only include the capital element per the continuing requirements of the FReM. See ch10, para 10.1.62 of the 23-24 FReM.

41. The IFRS 16 amortisation schedule in the workings tab does not phase initial asset recognition in the same manner as the IAS 17 schedule in the accounting calculations tab. Per paragraph 15 above, where all assets have been transferred to the entity (which is assumed to be the case in most if not all scenarios given the length of time since commencement of many PFI arrangements) no inconsistency exists in calculating the IFRS 16 liability position on or after transition.

Pre-refinancing and post-refinancing

42. **Principle 7:** Calculations should separately show the effects of pre-refinancing and post-refinancing arrangements. The change between calculations on a pre and post refinancing basis are presented in both the accounting calculations and workings tabs.

Catch up or transition adjustment

43. **Principle 8:** The catch up or transition adjustment is calculated as the difference on 31 March 2023 between the carrying value of the PFI liability under an IAS 17 basis against the calculated IFRS 16 position.

44. In accordance with the FReM the adjustment is made in the books of the NHS body to the opening balance of the I&E reserve on 1 April 2023 and the opening balance of the PFI liability on 1 April. This is prior to any lease remeasurement event that may take place in the opening IFRS 16 period.

Lease liability remeasurement

45. **Principle 9**: In accordance with IFRS 16.42.b the liability should be continuously remeasured to reflect changes in payments due to changes in the indexes or rates used to determine those payments. The changes in the carrying value of the liability should be recognised in the period the payment takes place with the opposite entry in SoCNE / SoCI per the FReM. The remeasurement adjustment for the relevant period is the difference between the NPV of the remaining contractual cashflows with the latest change in rate of inflation compared to the NPV of the remaining contractual cashflow with the previous change in rate of inflation.

ILLUSTRATION OF HOW THE MODEL WORKS

STEP 1: INPUT DATA INTO THE MODEL

46. All the input tabs are identical from the original PWC model. Users should input to those tabs based on the existing model manual user guidance that is attached in appendix 3 of this guidance.

STEP 2: INPUT HISTORICALLY DERIVED FINANCING RATE

47. As referenced in paragraphs 20 and 35 above, the appropriate rate to employ in the revised model is the rate the entity's historic model derived for the arrangement at its inception.

48. Given the approach taken in the workings and accounting calculation tabs of the revised model, the goal seek macro will no longer correctly function to return the previously derived rate for each different scenario in the model so you will need to manually input the relevant rates into cells C6 and C8 in the controls tab.

3	Model scenarios				
4	Scenario	1	Hypothetical large PFI Acute Hospital		
5			Real		
6	Financing rate - semi annual - pre refinancing		3.842%		0
7					
8	Financing rate - semi annual - post refinancing		3.353%		0
9					
10	Goal Seek Macro				
11	Press this button after choosing the model scenario - following the updates of this model for IFRS 16				
12	remeasurement, the goal seek macro to identify the financing rate no longer functions. Please manually		Goal Seeks - pre refi		Goal Seeks - post refi
13	enter the financing rate(s) calculated in your previous IAS 17 model in the input cells C6 and C8 above. Note				
14	that financing rate(s) need to be manually updated when you switch between scenarios in this model.				

STEP 3: CALCULATE THE PFI LIABILITY

49. From rows 104 in workings the model takes the relevant information from further up in the workings tab to identify both real and actual splits of each component that is covered within the unitary payment.

PRE REFINANCING																
Period number		0	0	0	0	0	0	0	1	2	3	4	5	6	7	8
Unitary Payment at senices start date	1,563,328	0	0	0	0	0	0	0	16,776	21,281	24,601	24,601	24,601	24,601	24,601	24,601
Operating costs at senice start date	659,418	0	0	0	0	0	0	0	3,027	6,305	8,399	9,502	9,567	9,635	9,651	9,727
Lifecycle at senice start date	47,614	0	0	0	0	0	0	0	0	0	0	0	0	0	67	67
Real lease payment priced at senice start date	856,296	0	0	0	0	0	0	0	13,748	14,975	16,202	15,099	15,034	14,967	14,883	14,807
Indexation		100.000%	102.500%	102.500%	105.063%	105.063%	107.689%	107.689%	110.381%	110.381%	113.693%	113.693%	117.104%	117.104%	120.617%	120.617%
% change in index		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%	103.00%	103.00%	106.09%	106.09%	109.27%	109.27%
Actual nominal unitary payment	2,391,324	0	0	0	0	0	0	0	16,776	21,281	25,339	25,339	26,099	26,099	26,882	26,882
Actual operating costs and expensed lifecycle	-1,053,656	0	0	0	0	0	0	0	-3,027	-6,305	-8,651	-9,787	-10,150	-10,221	-10,576	-10,658
Actual capitalised lifecycle	-47,433	0	0	0	0	0	0	0	0	0	0	0	0	0	-44	-44
Actual lease payment	1,290,235	0	0	0	0	0	0	0	13,748	14,975	16,688	15,552	15,949	15,878	16,263	16,180

50. An initial liability at commencement is calculated based on the remaining real contractual cashflows to provide the opening position for the lease amortisation schedule. The assumption underpinning the figure derived is covered in paragraphs 15 and 41 above.

120	Lease Amortisation Schedule					
121	Opening liability	-	-	328,974	326,639	332,676
122	Lease liability remeasurement	0	0	0	9,799	0
123	Initial liability at commencement	0	330,042	0	0	0
124	Lease interest	0	12,681	12,640	12,926	12,782
125	Payment	0	-13,748	-14,975	-16,688	-15,552
126	Closing liability	0	328,974	326,639	332,676	329,906

STEP 4 CALCULATE PFI LIABILITY REMEASUREMENTS

51. The index on which the lease payment is based is assumed to change on either an annual or half yearly basis, dependent upon the inflation assumptions input to the global input tab. Indexation is applied to the cash flows that have taken effect at that point.

4	5	6
31/03/2012	30/09/2012	31/03/2013
113.141%	115.969%	115.969%
113.693%	117.104%	117.104%
0	0	0
0	0	0
25,339	26,099	26,099
24,073	24,794	24,794

52. Where an index or rate changes a remeasurement will be calculated as part of the lease amortisation schedule.

3	4	5	6	7
30/09/2011	31/03/2012	30/09/2012	31/03/2013	30/09/2013
113.141%	113.141%	115.969%	115.969%	118.869%
113.693%	113.693%	117.104%	117.104%	120.617%
113.693%	113.693%	117.104%	117.104%	120.617%
103.00%	103.00%	106.09%	106.09%	109.27%
25,339	25,339	26,099	26,099	26,882
-8,651	-9,787	-10,150	-10,221	-10,576
0	0	0	0	-44
16,688	15,552	15,949	15,878	16,263
326,639	332,676	329,906	336,909	333,976
9,799	0	9,897	0	10,019
0	0	0	0	0
12,926	12,782	13,056	12,944	13,217
-16,688	-15,552	-15,949	-15,878	-16,263

53. Rows 122 and 143 calculate the remaining NPV of the contractual cashflows at the latest change in inflation against the previous change in inflation which is calculated across the life of the arrangement in row 113.

54. Without inputting the correct inflation rates impacting payment streams the appropriate liability remeasurements can also not be calculated by the model.

55. To ensure an IAS 17 position can still be derived in the accounting calculations tab for periods prior to 1 April 2023, no adjustments are made to the original content of the workings tab.

STEP 5: AMORTISE THE LIABILITY

141	Lease Amortisation Schedule						
142	Opening liability	339,414	343,931	339,950	343,579	338,578	343,949
143	Lease liability remeasurement	8,485	0	8,499	0	8,464	0
144	Lease interest	11,666	11,533	11,685	11,522	11,638	11,534
145	Payment	-15,635	-15,514	-16,554	-16,523	-14,731	-14,464
146	Closing liability	343,931	339,950	343,579	338,578	343,949	341,019
147							

56. The workings tab now contain amortisation schedules for the IFRS 16 positions derived for the PFI liability.

57. The same rates employed for determining the NPV of the contractual cashflows should be employed to derive interest charges. This rate was calculated as part of the functioning of the original PWC model. This rate should be continued to be applied by users of the revised model.

58. As the goal seek macros will no longer function given the revisions to the model, users should input the relevant rate into cells C6 and C8 of the controls tab to update the accounting calculations tab references that feed into the workings tab calculations accordingly.

59. Interest at the financing rates determined for pre and post refinancing scenarios are applied to the relevant liability positions after movements in the liability for remeasurements or additions are factored in.

STEP 6: PRESENTING BOTH IAS 17 AND IFRS 16 POSITIONS THROUGH ACCOUNTING CALCULATIONS

60. With the original detail of the historic PWC model left intact and supplemented as appropriate to derive IFRS 16 calculations, this ensures that the accounting calculations tab, from which the semi and annual financial statement tabs are driven, can present IAS 17 positions up to the transition date of 1 April 2023.

61. Transition dates are input in row 43 and drive formula throughout the tab to ensure that IAS 17 positions convert to IFRS 16 calculations at the appropriate dates

42	PDC flag				
43	Balance sheet dates for formula relating to transition			31/03/2023	30/09/2023
44					

=IF(H$21<=$C$43,0, Workings!H123)

62. As the IFRS 16 liability measurement and amortisation incorporates additional elements compared to an IAS 17 approach (such as liability remeasurement) these elements have been additionally incorporated into the accounting calculations tab where appropriate in both the amortisation schedules and the I&E account sections.

STEP 7: CALCULATE THE TRANSITION ADJUSTMENT

63. Take the closing IFRS 16 balance on 31 March 2023 from the workings tab which is equal to the opening balance on 1 April 2023 and compare this to the closing balance (IAS 17) on 31 March 2023 in the accounting calculations tab to calculate the transition adjustment.

64. The transition adjustment will be presented above the opening liability in the period of transition to IFRS 16 and the relevant opening liability will incorporate the transition movement automatically

76	**Long term liabilities - post refinancing**			
77	IFRS 16 transition adjustment	0	90,328	0
78	Long term liabilities - opening	251,241	338,028	340,422
79	Lease liability remeasurement	0	8,451	0
80	Lease liability additions - new assets	0	0	0
81	Lease liability additions - lifecycle	531	364	364
82	Operating costs	10,874	14,652	14,667
83	Release of capital contribution	0	0	0
84	Lease interest	8,425	11,619	11,416
85	Unitary charge	-23,371	-32,691	-32,691
86	**Long term liabilities - closing**	247,700	340,422	334,178

STEP 8: REVISE THE FINANCIAL STATEMENTS TO INCLUDE THE REQUIRED IFRS 16 INFORMATION

65. In the same way that the accounting calculations tab line items have been supplemented to capture additional components that are required for IFRS 16 presentations, such as lease liability remeasurement and transition adjustment line items, this has been replicated in the financial statement tabs in both the financial statement sections and the memoranda sections of the tabs.

66. A financial impact analysis table and graph have been incorporated into the annual statement tab and complements the cash allocation graph in visually presenting the impacts of transitioning to an IFRS 16 measurement basis for the PFI liability. Appendix 2 provides illustrations of these.

STEP 9: PROVIDE RELEVANT DISCLOSURES FOR PFI

67. Once the model has worked through the above steps the model is now ready to inform the preparation of the relevant disclosures as detailed in chapter 5 of the GAM for PFI. Entities will need to consider the requirements of IAS 8 paragraph 28 for the 2023-24 Annual Report and Accounts.

Appendix 2: Financial Impact Analysis

68. This appendix shows an example of how transitioning to an IFRS 16 measured PFI liability via the revised model impacts various line items for the scenario 1 presented in the master prototype. The explanation of the impacts are detailed in the main body of this guidance

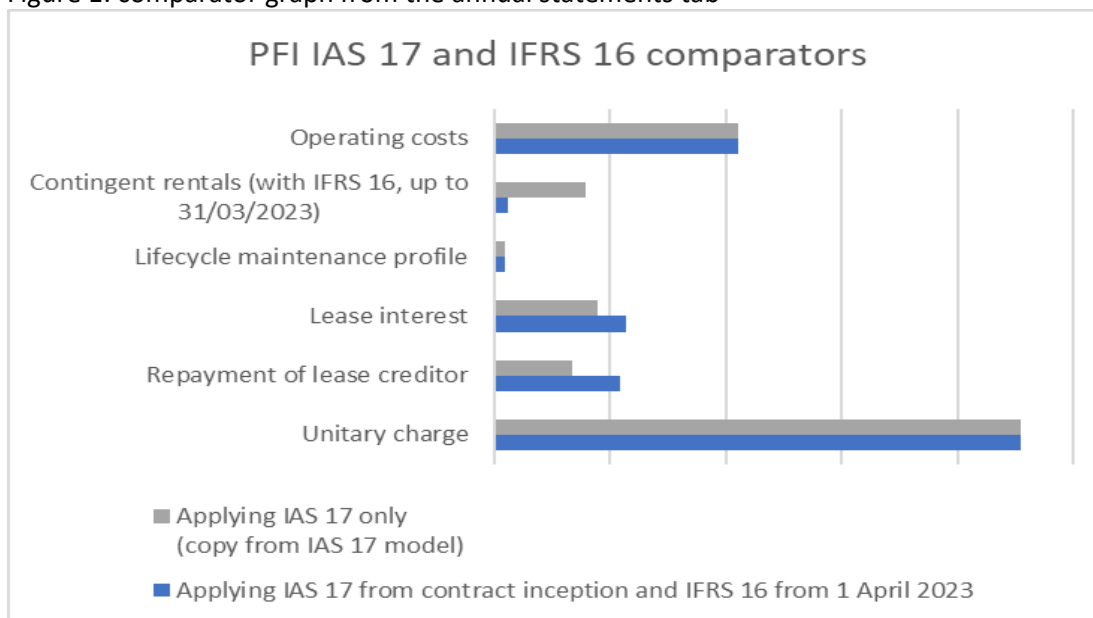Figure 1: comparator graph from the annual statements tab

Figure 2: comparator table from annual statements tab

PFI IAS 17 and IFRS 16 comparators from the unitary charge allocation memorandum	Applying IAS 17 from contract inception and IFRS 16 from 1 April 2023	Applying IAS 17 only (copy from IAS 17 model)	Changes
Unitary charge	2,274,928	2,274,928	0
Repayment of lease creditor	544,159	335,893	208,267
Lease interest	570,654	445,370	125,284
Lifecycle maintenance profile	47,433	47,433	0
Contingent rentals (with IFRS 16, up to 31/03/2023)	59,025	392,576	(333,551)
Operating costs	1,053,656	1,053,656	0
	0	0	0

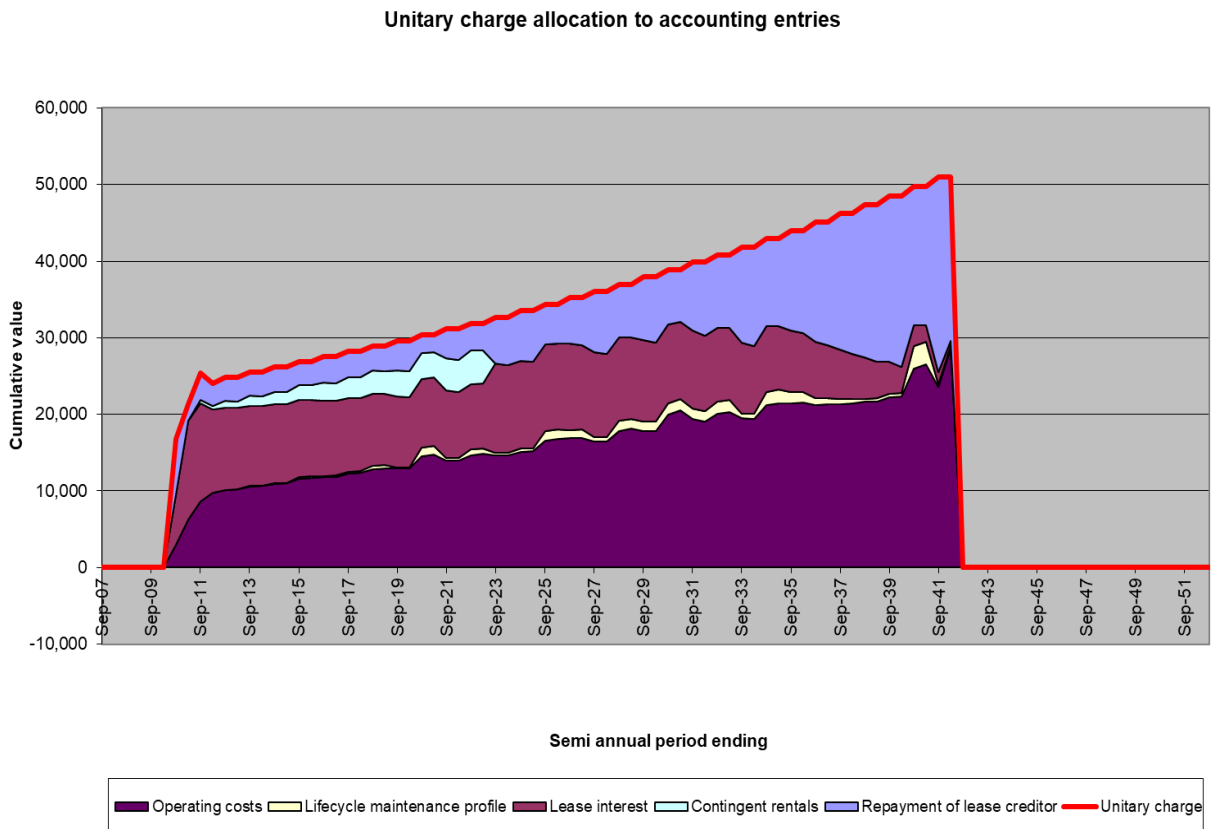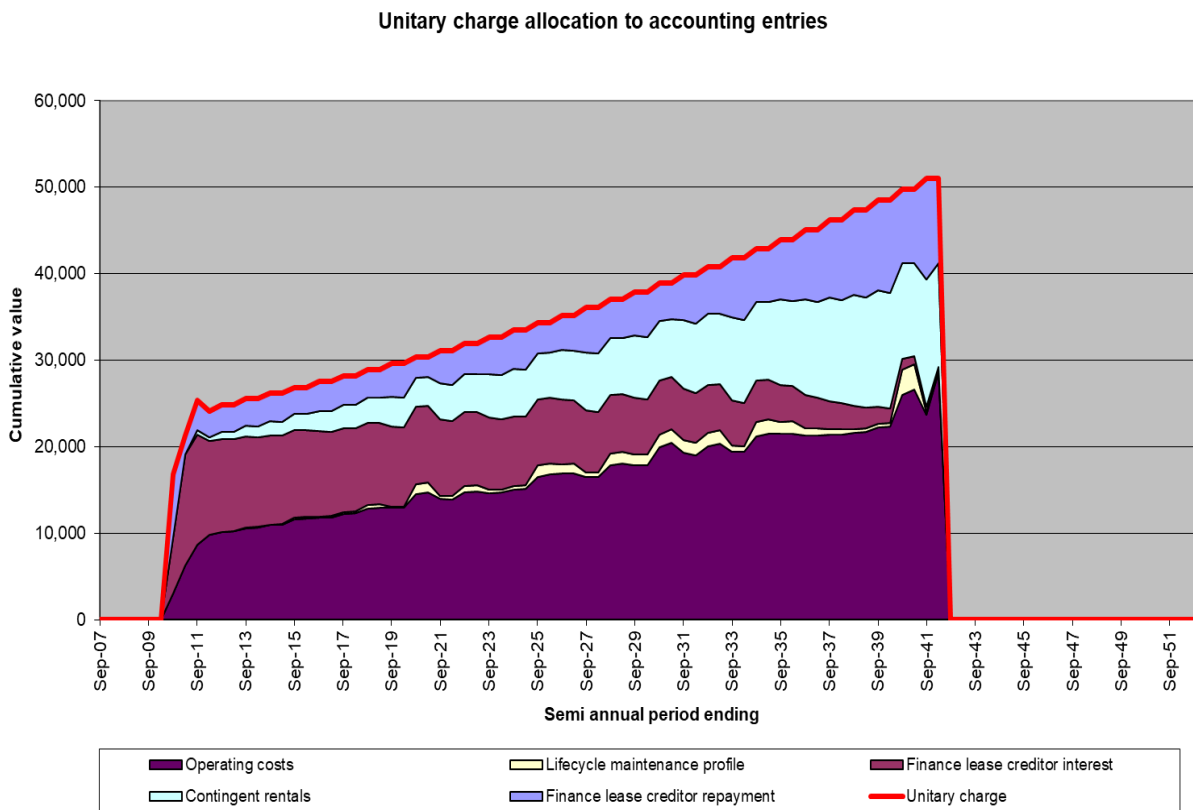Figure 3: cash allocation graph in model for scenario presented in figures 1 and 2

Unitary charge allocation to accounting entries

Figure 4: cash allocation graph for scenario prior to IFRS 16 model revision

Unitary charge allocation to accounting entries

Appendix 3: Useful sources of information

[FReM](#)
Prescribes the approach to the transition and subsequent accounting and reporting practice. Sources of guidance for accounting policy notes. Chapter 10 for PFI guidance.

[Supplementary FReM guidance on index linked payments in PFI arrangements](#)

[GAM](#)
Accounting policy note covers PFI. Chapter 5 detailed disclosure requirements.
Chapter 4, and chapter 4 Annex 5 confirm the approach to PFI per the FReM, contextualised for the health sector

[IFRS 16 standard](#)
Source of principles and worked examples used in this guide. For example, Illustrative example 14.

[IFRS 16 products on the NHSE website](#)

Original PFI technical guide

Accounting for PFI
under IFRS - Guidance

Original PFI model manual user

Accounting for PFI
under IFRS - Model us