IFRS 16 2020/21 impact forecast: guidance

Guidance to accompany form for submission on 15 January 2020: NHS providers

IFRS 16 is effective for NHS bodies from 1 April 2020. Operating plans for 2020/21 must be prepared on an IFRS 16 basis. HM Treasury has set an earlier deadline in late January 2020 for the Department of Health and Social Care to provide information to support adjustments to ‘Main Estimates’ – the process by which Departmental limits will be set for 2020/21. This return is designed to collect information necessary to inform those adjustments for NHS leasing arrangements. Information supplied by NHS bodies in this return will form the basis of information used by HM Treasury to make changes to the Departmental capital and revenue limits, so it is important that these sheets are completed as accurately as possible. If you have queries in relation to the completion of these tabs please contact provider.accounts@improvement.nhs.uk.

This return contains two sheets:

- 19A. IFRS 16 – capital - this sheet collects the forecast incremental impact of IFRS 16 on leased additions and other elements of capital accounting that score to capital budgets
- 19B. IFRS 16 – revenue - this sheet collects the forecast incremental impact of IFRS 16 on revenue items including depreciation, interest on lease liabilities and lease costs charged to operating expenditure

These sheets also appear in the 2020/21 financial planning form (FPR) where information on an IFRS 16 basis is pulled through from information entered into existing financial plan sheets (Summary Financials, and Capital Analysis Schemes). For this return, information on an IFRS 16 basis will need to be entered directly.

This guidance provides an overview of what is expected in each table of the IFRS 16 impact forecast. Additional detailed guidance is also included within the template to the right hand side of each table. For broader guidance on what IFRS 16 means for you, please see the guidance on our IFRS 16 financial accounting webpage: https://improvement.nhs.uk/resources/ifrs-16/

Tab 19A IFRS 16 impact – capital

This tab collected information in three tables:

**Table A1**: Leased assets on opening SoFP – **This table is optional for the 15th January submission.**

Completion of this table will be required in the financial plan submission (PFR). It has therefore been included in this return for illustration and optional input. This table summarises the leased assets on SoFP at 1 April 2020 following IFRS 16 transition split by existing finance leases and existing operating leases brought on-SoFP on transition. Balances are split into columns according to the nature of the counterparty. This will provide
an initial summary of the level of intra-group leases that will need to be eliminated by NHS Improvement and DHSC at sector and Departmental group levels.

**Table A2: Capital impact of IFRS 16 in 2020/21**

This table collects the incremental impact of IFRS 16 on planned capital expenditure for the year.

- **Column F** collects information on an IFRS 16 basis – this should be the basis of capital plans for 2020/21 in planning forms. The table requires:
  - The capital value of leased additions in 2020/21 on an IFRS 16 basis split by counterparty type (leases commencing during 2020/21). This includes the asset value of any peppercorn lease additions.
  - The net book value of assets derecognised by lessors as new finance leases in 2020/21 (ie would be recorded as a disposal).
  - The value of any lease liability remeasurements forecast for 2020/21 – under IFRS 16 such remeasurements are also recognised in the asset value and therefore score as capital expenditure.
  - Any adjustments for new peppercorn leases commencing in 2020/21 – these are treated akin to donated assets, with the difference between the asset value and lease liability not scoring to capital budgets.
  - For forecast on-SoFP lease terminations in 2020/21, the difference between the NBV of the asset and the terminated lease liability. Note this would likely only relate to existing finance leases. Any current operating leases that are forecast to be terminated during 2020/21 would most likely be assessed as having a lease term of less than 12 months on transition and would not be brought on SoFP (using hindsight per paragraph C10(e)).

- **Column G** collects capital information for leases if they were instead recognised on an IAS 17 basis. This would therefore relate to a subset of all leases: only those which would have been finance leases under IAS 17. In this column, the form requires:
  - The capital value of finance leased additions that would have been recognised in 2020/21 split by counterparty type
  - The net book value of assets that would have been derecognised as a new finance lease (lessor accounting) under IAS 17 – this is only expected to differ from the IFRS 16 position where changes have arisen in accounting for subleases.

- **The incremental impact on capital budgets of applying IFRS 16 in 2020/21 is then calculated in column H.**
Table A3: Additional information on new leases

This table collects information on annual and total rental charge commitments for new leases. For new leases commencing in 2020/21 on an IFRS 16 basis (summarised at the top of this table), please enter:

- the aggregate value of the annual lease rentals – this should be the full year rental (not pro-rated for leases commencing part way through the year) and include both interest and principal repayments. Where rental payments are not made evenly over the life of the lease (for example a large prepayment), the average annual rental should be entered.
- The aggregate value of the total commitments for new leases (all annual lease payments to be made over the life of the leases). This is the total of all payments over the life of the lease, before discounting to present value.
- Note that this information is required to be entered into columns G to I according to the leasing counterparty with whom the lease arrangement exists.

The table then calculates the implied weighted average length of new leases, and the implied weighted average discount rate applied to new leases. If these figures look unusual, this should prompt providers to check information entered in the rows above or as lease additions on table A2.

Tab 19B IFRS 16 impact – revenue

This sheet collects information on the revenue impact of applying IFRS 16. This sheet contains two tables:

Table B2: Revenue impact of IFRS 16 in 2020/21

This table collects leasing revenue costs on an IFRS 16 basis (split by leasing counterparty) and an IAS 17 basis to calculate the incremental impact of IFRS 16 on revenue budgets. In this table a counterparty analysis is only required on an IFRS 16 basis.

- Columns G to I require information to be entered on an IFRS 16 basis split by leasing counterparty.
- Column J requires the equivalent income / cost if IAS 17 continued to apply. Freetext checks at the bottom of the sheet check the reasonableness of IAS 17 entries against historic audited data.
- The following information is required on both an IFRS 16 and IAS 17 basis:
  o Forecast operating lease income (for lessors). This is likely to be the same on both bases.
  o Forecast lease rentals charged to expenditure split between existing and new leases – under IFRS 16 this will relate to low value or short term leases and variable lease payments not included in the lease liability. Under IAS 17 it will be the operating lease annual payment.
  o Forecast depreciation on right of use assets split between existing and new leases. This is expected to increase under IFRS 16. Note that unlike
agreement of balances, in this return depreciation must be recorded against the leasing counterparty where there is an intra-group arrangement.

- Any forecast net impairments on leased assets split by DEL / AME. It is unlikely that any providers will be forecasting impairments to leased assets at this stage. Note any impairments forecast must recorded against the relevant leasing counterparty.
- Forecast interest charge on leases split between existing and new leases. This is expected to increase under IFRS 16. Note that unlike agreement of balances where interest is out of scope, in this return interest must be recorded against the relevant leasing counterparty.
- Forecast PDC dividend charge. A small change in PDC dividend may arise under IFRS 16 where by the end of the year, the value of the right of use asset is no longer equal to the value of the lease liability. Notwithstanding any asset revaluations, in most cases the asset value will reduce quicker than the lease liability, therefore reducing the PDC dividend charge.

- The following information is required on an IFRS 16 basis only:
  - Any forecast gains to be recognised in income for new peppercorn leases commencing in 2020/21 – this is the difference between the asset value and any lease liability.
  - Forecast depreciation on peppercorn leased assets split between existing and new leases – a counterparty split is again required if these are intra-group arrangements.
  - Separate disclosure of any forecast impairments on peppercorn leased assets (unlikely to be applicable).

The financial planning form (FPR) will contain an additional first table (table B1) which will split leasing revenue costs input into plans between new and existing leases. For the purposes of this return, that split has been merged into table B2 as a simplification.

**Table B3: IAS 17 basis counterparty analysis**

This table collects an analysis by leasing counterparty of operating lease expenditure in 2020/21 if IAS 17 continued to apply. This is an analysis of the figure provided in column J of table B2. This is the only IAS 17 figure for which a counterparty analysis is required.

**Submission requirements for this return**

Completed forms must be submitted on NHSI portals by **noon on Wednesday 15th January 2020**.

All validations must be cleared – these are summarised on the cover sheet.

When files are submitted on portals they will appear as a ‘TAC’ return (accounts submission) as a month 0 file.

For any queries on this return please contact provider.accounts@improvement.nhs.uk