Agreement of Leases Guidance

Background

The implementation of IFRS 16 will have a material effect on the DHSC group account and it is anticipated that its implementation will have a material impact on the accounts of many group organisations. One risk of its implementation, for all group bodies, is that the lease data underpinning group accounting adjustments is incomplete.

Under IFRS 16 the accounting for lessors and lessees loses symmetry and so, for the first time, intra-group eliminations will have a bottom-line impact in national consolidations. To enable DHSC to secure the right level of funding for the 2020-21 financial period, which ultimately informs budgets for group bodies, it is important that intra-group lease reporting is as complete as possible.

This need for all group bodies to have complete data on leases and for the group level funding forecasts to be as accurate as possible necessitates an ‘Agreement of Leases’ exercise. This exercise is separate from the data being collected from group bodies on the capital and revenue consequences of adopting IFRS 16.

All data provided for this exercise should reflect the lease arrangements in place as at 31 December 2019.

This guidance contains three sections and group organisations are advised to read all sections prior to completing the exercise

1. The Agreement Process
2. Timetable
3. Completing the Templates

While we expect this exercise to be a one-off, group bodies should retain the results of the exercise as additional supporting evidence for the completeness of leases when challenged by auditors.
1. The Agreement Process

The agreement of leases exercise will require all group bodies to complete 2 excel templates:

- “Template 1 – Agreement of Leases IFRS16 – Lessors”; and
- “Template 2 – Agreement of Leases IFRS16 – Lessees”.

An overview of the exercise is provided below:

Where group organisations believe they do not have any intra-group lease arrangements as at 31 December 2019, either as a lessor or lessee, they will need to confirm that this is the case.

The information supplied by the lessor is to facilitate the lessee being able to identify the lease arrangement. The purpose of this exercise does not go beyond establishing the completeness of intra-group leases.

Agreement that a lease arrangement exists is not confirmation, in any way, of any amounts paid or payable in respect of the agreement, neither is it necessarily confirmation that a formal, written and signed agreement exists.

DHSC and National Bodies do not require re-submission of statements following actions taken to resolve cases where agreement has not been reached on whether lease arrangements exist. DHSC will seek to gain its assurance that appropriate steps have been taken to reach agreement as part of the ‘Agreed upon Procedures’ assurance work that is being mandated as part of the wider IFRS 16 group implementation plan.
Some important **key points to note** prior to undertaking this exercise are:

- For the purpose of this exercise, a lessor should include an arrangement in its lessor statement irrespective of whether the lessor is providing the head lease or a sub-lease.
- Lessors and lessees should provide details of lease arrangements of any lease term. This includes lease arrangements with a lease term less than 12 months.
- A lease arrangement with another public sector entity, under the FReM adaptation of IFRS 16, need not take the form of a written or formal agreement. Lessors and lessees must include details of intra-group leases irrespective of whether a formal agreement is in place.
- Leases that relate to intangible assets should not be included in the statements.
- The focus of this exercise is on the completeness of lease arrangements and not on the value of lease arrangements. As such leases of any value, including those below the low value threshold of £5k and any intra-group peppercorn leases, should be included within the exercise.

## 2. Timetable

The following timetable should be adhered to by group bodies completing this exercise.

<table>
<thead>
<tr>
<th>Date</th>
<th>Lessor/Lessee/National Bodies</th>
<th>Description</th>
</tr>
</thead>
</table>
| Wednesday 15 January 2020 | National Bodies | National Bodies to distribute the  
  • lease statement template;  
  • lease agreement guidance; and  
  • counterparty list  
to all group organisations.  
Note: NHS provider organisations must use the lessor statement provided in the Inbox of their NHSI Trust Portal. |
| Friday 31 January 2020 | All group organisations | Deadline for all group organisations to submit completed lessor statement template, including nil returns to their respective National Body:  
  • ALBs – emailed to LeaseAoB@DHSC.gov.uk  
  • Commissioners – emailed to England.LeaseAoB@nhs.net  
  • Providers - Uploaded to NHSI Portal. This will be processed as a ‘TAC month 00’ file. |
| Tuesday 11 February 2020 | National Bodies | National bodies to distribute populated lessee statements to all group bodies. |
| Friday 28 February 2020 | All group organisations | Deadline for all group bodies to submit completed lessee statements, including nil returns, to their respective National Body:  
  • ALBs – emailed to LeaseAoB@DHSC.gov.uk  
  • Commissioners – emailed to England.LeaseAoB@nhs.net  
  • Providers – Uploaded to NHSI Portal. This will be processed as a ‘TAC month 00’ file. |
A large proportion of intra-group leases are leased from a small number of group bodies and, as such, when taking steps to resolve cases where agreement on whether a lease arrangement exists, DHSC would encourage group bodies to be mindful of this fact and recognise that it may take some time for some group bodies to be able to respond to queries raised.

As the scope of this agreement of leases exercise relates solely to whether an intra-group lease arrangement exists, we do not expect large volumes of disagreements. However, should the volume of disagreements be significantly higher than what we currently anticipate, we will contact group bodies to request that actions to resolve such cases are paused until DHSC, together with National Bodies and other affected group bodies, consider a pragmatic approach to resolving issues that minimises the operational impact on group bodies.

3. Completing the Templates

**Completing “Template 1 – Agreement of Leases IFRS 16 – Lessors”**

Each group organisation will receive Template 1 from its respective National body. The fields in the template should be completed as follows:

**Step 1:**

*Lessor’s Details* - The lessor counterparty name (your organisation); organisation code; and contact details (Email address, telephone number and name) should be populated using the counterparty list supplied (dropdown list Cell B14).

**Step 2:**

*Nil Return Declaration* - If the group organisation does not have any intra-group leases as a lessor, it should confirm this by choosing “Yes” in the declaration agreement dropdown box.

**Step 3:**

*Lessor’s Organisation Code (Column B)* The lessor’s Organisation code will populate automatically following the completion of the Lessor’s Details section.

*Lessee’s Details (Columns C & D)* - The lessee counterparty name should be selected from the dropdown in column C. The organisation code will then automatically populate in column D.

*Asset Details (Columns E to H)* - The lessor should provide as much information as possible to enable the lessee to clearly identify and agree that a lease arrangement exists. The information provided in the statement represents all the details the lessee will have available to identify the asset and as such it is important, so as to avoid false disagreements, that these columns include all pertinent information. This section consists of:
• a description of the leased asset and, for properties, the address;
• the area and floor/s of the building being leased;
• whether there is any equipment included in the lease (this is a dropdown field) and a description as applicable.

Other Information (Columns I to M) - This additional information will be useful for National Bodies to determine potential common themes in disagreements. The following fields are included within this section:

• Is there a documented lease agreement? – note that within the public sector, the absence of a documented agreement does not necessarily mean no lease agreement exists;
• whether the arrangement in place is a sub-lease – note that this is in relation to whether the lessor, who is providing the lease to the group body and populating this form, also leases the asset. Where the lessor believes that the asset is subsequently leased on by the lessee, but the asset is owned by the body populating this statement, the lessor should state that the lease is not a sub-lease;
• where the arrangement is a sub-lease, details of who the head lease is with; and
• where the head lessor is also a group body, the organisation code of the head lessor. Where the lessor is not a group body, please select ‘Other – outside of group’ in column K.

Lessors need not complete columns that are not relevant (e.g. sub-lease information is not required where the arrangement is not a sub-lease).

Submitting “Template 1 – Agreement of Leases IFRS 16 – Lessors”

The completed template should be submitted to the lessor’s respective National Body, details of which are below. Where submission is by email, the subject field must contain the lessor organisation’s name and counterparty code e.g. if DHSC is the lessor then the e-mail title will be ‘DHSC - DOH033’

Arm’s Length Bodies should submit the completed statement to DHSC: LeaseAoB@DHSC.gov.uk
Providers should upload the completed statement to NHSI Portal outbox and submit - this will be processed as a ‘TAC month 00’ file. Commissioners should submit the completed statement to NHSE: England.LeaseAoB@nhs.net

Completing “Template 2 – Agreement of Leases IFRS 16 – Lessees”

Each group organisation will receive Template 2 from its respective National body. This will be a list of all intra-group leases where lessors have named the organisation as being a lessee.

On receipt of the lease statement from the National Body, all group bodies should review each individual lease identified and complete the lessee section against each listed lease.

Organisations that have not been identified as an intra-group lessee will receive a nil statement. If they agree that they do not have any intra-group lease arrangements, they should complete the nil return section at the top of the statement.
The fields in the template should be completed as follows:

**Step1:**

_**Lessee Details** - The lessee counterparty name and organisation code will be prepopulated. The contact details (E-mail address, telephone number and name) should be completed by the Lessee._

**Step2:**

_**Nil Return Declaration** - If the group organisation receives a nil statement where it is a lessee and agrees that it does not have any intra-group leases, it should confirm this by choosing “Yes” in the declaration dropdown box._

**Step3:**

_The information in the blue table in step 3 has been populated from lessor returns (template 1) where your entity has been identified as a lessee. This information cannot be altered. This information is for review._

**Step 4:**

_The rows in the green table should be completed for each leased asset identified in Step 3 (blue table) to indicate whether the entity agrees that a lease arrangement exists._

_Do you agree that this lease arrangement exists? (Column L) – Please select Yes/No_

_Do you consider the asset which is subject to a lease to be below the low value threshold (£5k)? (Column M)_

_Is this asset subject to sublease (Column N) – Please select Yes/No_

_If yes to Column N please provide details of the sub-lessee (Column O) - This field should be populated with the name of the organisation that sublets this asset where this organisation is within the group._

_Sublessee’s Organisation Code (Column P) – This will populate automatically upon completion of column O._

_Comment (Column Q) - This field should be used by the lessee to make any additional comments/queries about lease information that has been provided by the lessor on the statement._

_If the lessee does not acknowledge the lease arrangement, it should give further information in the comment field as to why this is the case._

_Is this a void space? (Column R) – Please select yes/no_

_Is this GP premises? (Column S) – Please select yes/no_

**Step 5: Lease arrangements that are not listed on the lessor statement**

_If the Lessee believes it has a lease arrangement with an intra-group counterparty that has not been listed by the lessor, it should include the details of such leases in the ‘Leases not included’ table within the template (brown table)._
**Lessor’s Details** - The lessor counterparty name (column B) should be selected using the counterparty list supplied within the template. The lessor counterparty code (column C) will populate automatically.

**Lessee’s Details (Columns D & E)** - The lessee counterparty name will be automatically populated from the lessee details section in Step 1.

**Asset Details (Columns F to I)** - The lessee should provide as much information as possible to enable the lessor to clearly identify the potentially omitted lease arrangement. The information provided in the statement represents all the details the lessor will have available to identify the arrangement and as such it is important, so as to facilitate resolution of the issue, that these columns include all pertinent information. This section consists of:

- a description of the leased asset and, for properties, the address;
- the area and floor/s of the building being leased;
- whether there is any equipment included in the lease (this is a dropdown field).
- A description of any equipment included in the lease

**Is this a void space? (Column J)** – Please select yes/no

**Is this GP premises? (Column K)** – Please select yes/no

**Submitting “Template 2 – Agreement of Leases IFRS 16 – Lessees”**

When the lessee has completed all of the required fields, Lease Statements (including nil returns) must be returned to the National Body as below. Where submission is by email, the subject field must contain the lessee organisation’s name and counterparty code e.g. if DHSC is the lessee then the e-mail title will be ‘DHSC - DOH033’

Arm’s Length Bodies should submit the completed statement to DHSC: LeaseAoB@DHSC.gov.uk

Providers should upload the completed statement to NHSI Portal outbox and submit - this will be processed as a ‘TAC month 00’ file.

Commissioners should submit the completed statement to NHSE: England.LeaseAoB@nhs.net

**Lease Statement Queries**

If group organisations have any queries regarding how to complete the Lease Statement templates they should email as below, ensuring the subject box quotes QUERY and the group body counterparty code e.g. if the group body is DHSC the subject box would be “QUERY DOH033”, or the NHS code for an NHS body.

Queries can be emailed to LeaseAoB@DHSC.gov.uk