

## LINK announce IFRS 16 and the New World of Schools Leasing

**With financial year end, the adoption of IFRS 16 and closedown, you would be forgiven for missing that the Department for Education (DfE) have issued a General Consent in respect of schools leasing.**

Maintained schools can now enter what were finance leases under International Accounting Standard 17 (for certain asset categories). This General Consent came into force on 1 April 2024 and may be cited as "The IFRS16 Maintained Schools Finance Lease Class Consent 2024" (a copy of this is attached).

Early indications from the DfE and Education and Skills Funding Agency (ESFA) suggest that application for local authority-maintained schools and academies is almost identical. However, there is one difference.

Leases for academies will still be identified as either operating / finance leases under the Financial Reporting Standard 102 (FRS102). Academies may continue taking out operating leases as usual, except for land and building leases. The new arrangements will apply for academies from 1 September 2024.

In response to the standard, the DfE / ESFA has developed a new approach, as they wish to continue to allow maintained schools and academies (from September 2024) to use leases to support their operation, without additional administrative burdens. This new approach involves giving the Secretary of State's consent for particular classes of leased asset (listed below) and leases for items on this list will therefore not need to be submitted to the DfE / ESFA for approval.

- All existing leases in place on 1 April 2024 for items included in the list below:
- IT equipment
- telephony
- catering and cleaning equipment
- furniture
- bathroom / sanitary items
- gym equipment
- groundskeeping equipment
- LED lighting system - consent is granted where the product has been sourced with support from the Department for Education through Get help buying for schools or from a recommended route on our Find a framework website.

- minibuses and other vehicles for the use of the school
- temporary classrooms and equivalent structures (but not land lease they sit on)

The DfE has stated that the list will be kept under review following implementation, and the relevant guidance and documents are being updated accordingly. Any leases for assets not included in the above list will need to be submitted for consent. In the main, the DfE believe these will be leases in relation to land and buildings.

The worry with the new approach is that schools will be signing non-residual-based leases (previously finance leases) and residual-based leases (previously operating leases) and will need to ensure that the contractual terms reflect the relevant lease structure. For a non-residual-based lease, there should be no return conditions, peppercorn extensions and the ability to sell the assets as agent of the lessor, but historically this has not always been the case.

Some opportunistic lessors have offered a non-residual-based lease but applied residual-based lease terms and conditions – the worst type of lease any school (or client) can enter.

Leases should still be reviewed from a value-for-money perspective (as schools will be signing into debt). Do schools have the expertise to evaluate arrangements to ascertain interest rates, or ensure they are on the correct contractual terms with no onerous conditions attached? Unfortunately, in most educational establishments, the answer is no. However, this is not due to ignorance, but more a lack of expertise in a very specialist subject area.

Link Group has supported schools for over 16 years with a market-leading Schools' Leasing Framework for advisory support to local authority-maintained Schools and academies. Pre-tendered leases with rates that reflect the public sector credit risk, on the correct contractual terms with no additional charges or onerous provisions, ensure that value for money is achieved.

Analysis of supplier-proposed lease offerings can be undertaken by Link, ensuring value for money, and obtaining the correct information for accounting under IFRS 16.

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#### **ABOUT LINK**

If you would like to know more about Link Group's Schools' Leasing Framework or the support services we can provide, please contact your Client Relationship Manager, [Darrell Slevin](mailto:darrell.slevin@linkgroup.co.uk) on 07921 099707 [darrell.slevin@linkgroup.co.uk](mailto:darrell.slevin@linkgroup.co.uk) or [Carly King](mailto:carly.king@linkgroup.co.uk) on 07892 789 954 [carly.king@linkgroup.co.uk](mailto:carly.king@linkgroup.co.uk)

#### **ABOUT ECONOCOM**

If you would like to know more about the new changes regarding the school Leasing Framework and how Econocom can help, please contact our school Leasing Framework specialist, [Mark Orchard](mailto:mark.orchard@econocom.com) on 07831 312 539 [mark.orchard@econocom.com](mailto:mark.orchard@econocom.com) or [info.gb@econocom.com](mailto:info.gb@econocom.com)