

## Blaby District Council **Policy**

### Lease Policy

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<b>Author Job Title</b>	Finance Group Manager	<b>Service Area</b>	Finance Services	<b>Document Register Reference</b>	Input by iPlan Team

\*Approved by and 'approval date' are in relation to the most recent version.

Review History			
Version*	Reviewed By (Job Title)	Review Completion Date	Brief Description of Changes (add 'no changes required' if applicable)
001	Finance Group Manager		New policy.

\*Version number remains the same if no significant changes are made upon review.

# Document Definition / Approval & Review

## Defining the document type and how it is approved and reviewed

Blaby District Council policies **‘outline a set of rules or principles that govern how the council (or services within the council) will operate’**.

Key published documents are approved for publication in line with the approval matrix illustrated in the [Key Published Document Procedure](#).

Unless agreed by exception, key published documents must be reviewed at least **every 3 years** from the date of approval.

Significant updates/changes must also seek reapproval in line with the approval matrix.

## Scope

### To what and to whom this policy applies

This policy applies to all assets that are held by Blaby District Council under lease agreements.

This includes, but is not limited to the following categories:

Vehicles, equipment, property, land, technology, plant, furniture, fixtures and fittings, leisure equipment.

It also covers embedded leases that may be contained within managed service contracts.

## Terms & Definitions

Definition of any acronyms, jargon, or terms that might have multiple meanings.

Term	Definition
IFRS16	An International Financial Reporting Standard that governs the accounting treatment of lease transactions.
IRR	Internal Rate of Return. A measure of the profitability of potential investments.
NPV	Net Present Value. The current value of future cash inflows and outflows in today’s terms.

## Policy Sections

### Section 1 Introduction – The purpose and reason for the policy.

The purpose of this policy is to ensure that the Council only enters into a lease agreement after having first considered all alternative procurement options, and with the full knowledge that it offers the best value for money.

Under IFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time. A contract can be (or may contain) a lease only if the underlying asset is 'identified'. Having the right to control the use of an identified asset means having the right to direct, and obtain all the economic benefits from, the use of that asset. These rights must be in place for a period of time and/or a specified amount of use.

IFRS16 prescribes that there are two types of leases; non-residual based, and residual based.

- **Non-residual based:** there is no assumed residual value, repayments cover all the principal with interest, there are no return conditions and there is an entitlement to any sales proceeds.
- **Residual based:** there is an assumed residual value, repayments are the principle with interest (excluding the residual value amount), there are return conditions and there is no entitlement to sales proceeds.

The accounting treatment of leases is determined by the identification of an asset within the contract, the value of the asset and the length of the use. Finance Services must be consulted at the earliest possible stage when lease agreements are being actively considered by any Services.

### Section 2 – The Leasing Decision

The decision to lease should not be taken in isolation; it should involve a cost benefit appraisal of the other potential options open to the Council. Prior approval should be obtained from the Executive Director (Section 151), Executive Director (Communities), or Executive Director (Place), as appropriate, before entering into any property or non-property lease agreement.

The lead officer responsible for the lease should contact their nominated Business Accountant for advice and request that the leasing option is evaluated against outright purchase and the use of prudential borrowing to ascertain which provides the best value to the Council.

A legal view should be sought in respect of the proposed terms and conditions included in the potential lease agreement as hidden or ambiguous clauses (for example, a requirement to take out a certain insurance policy) can result in additional costs to the Council. The Executive Director (Communities) or Solicitor & Deputy Monitoring Officer should be contacted for advice on this matter.

The following are specific matters that must be considered prior to entering into a lease arrangement:

- **Financing:** With leases a third-party entity, separate from the lessor, may be responsible for the financing of the lease agreement. Officers need to be aware of this so that any financing costs are built into the overall appraisal.
- **Insurance:** All leased assets should be insured against theft, loss or damage and it is often much cheaper for the Council (through the Insurance Officer, Finance Services) to obtain cover themselves rather than to take up a policy offered by the lessor. Such considerations will need to be examined as part of the cost-benefit analysis undertaken by Finance Services, which should consider cost against the level of cover required. (Some lessors require lessees to insure the leased assets in joint names).
- **Setting Off of Payments:** A lease may allow the lessor to set off any payments due to the Council in respect of separate goods/contracts with the same lessor. This is not permitted, and this type of agreement must not be accepted.
- **Early Settlement:** Terminating a leasing agreement before its expiry date can result in a range of financial penalties against the Council. Before a lease is terminated prematurely, an estimate of the costs involved should be obtained from the lessor. These costs should be compared to the costs of maintaining the lease for the remainder of the lease agreement to ensure the termination of the lease is cost effective. This should then be discussed with Finance Services before a final decision is agreed with the lessor.

- **Duration of the Lease and Termination Provisions:** Often there is a requirement to give notice rather than the lease terminating automatically on a specified date at the end of an initially agreed period. Care should be taken to ensure that a lease is terminated at the end of the primary leasing period.
- **Secondary Rentals:** Secondary rentals occur after the initial fixed primary period when a reduced rental may apply if the lessee wishes to continue to utilise the asset. While this may bring obvious benefits it should be noted that increased costs might arise from continuing to use equipment that is obsolete and in continuing need of repair. In some contracts, the secondary rental period continues automatically if the lessee fails to give the correct notice to end the lease agreement to the lessor.
- **The End of the Lease Period:** This would include any requirements for the condition of the equipment/goods at the end of the lease and whether any claim will be made against the Council if the equipment/goods do not meet the required standard. If there is a requirement to purchase the asset at the end of the lease term, the purchase price will be negotiated with the lessor by Finance Services on the Council's behalf.
- **Retention of an asset at the end of the lease period:** At the end of the lease period the Council may wish to retain the asset. This may be possible and if so the value of the asset should be identified before the purchase is agreed. In some cases, the residual value of the asset will be agreed when the contract is being put in place. Prior to the agreement to purchase any leased asset Finance Services should be contacted to discuss any financial implications resulting from the purchase of the assets.
- **Specialist Leasing Companies:** If a specialist lease advising company was used to arrange the lease, they should be contacted to negotiate the residual costs of the assets.

### Section 3 – The Procurement Process

Officers are reminded that the procedures laid down in the contract procedure rules must be followed in all cases of the leasing of assets. These can be found in Part 11 of the Council's Constitution on iBlaby.

If officers wish to consider, as part of the procurement, leasing as a viable option they must ensure that tenders/quotations specifically request suppliers to provide the leasing options available, including but not limited to:

- rental payment and payment dates,
- rental review dates,
- break options,
- indexation details
- dismantling costs,
- capital cost/fair value of asset,
- residual value,
- interest rate implicit in the lease,
- initial payments.

For all non-property contracts being considered for leasing where the "right of use" asset is estimated to have a purchase price of over £10,000 an appraisal should take place through Finance Services to evaluate whether leasing offers the best value for money.

Finance Services will appraise and evaluate the lease by calculating the Net Present Value (NPV). All payments and income have a "time value of money". This means that payments and income made in the future are worth less than if they were paid today because of inflation and other economic impacts. Net present value is a formula used to calculate the current value, in today's money, of all future cashflows.

The cost of the lease will be compared against the NPV of all the future borrowing costs to determine whether leasing or borrowing is the most cost-effective option.

## Section 4 – Financial Information and Record Keeping

Accounting rules require certain information to be disclosed in the notes to the annual Statement of Accounts in respect of leased assets. To enable these obligations to be met a database, containing the following information, will be maintained by Finance Services:

- Contract reference number.
- Full details of the lessor.
- Asset type leased and description of the asset including asset number or unique identification details.
- Start and end date of the lease.
- The minimum term and the full lease term (the minimum term + any extension periods).
- The rental payment amounts, with payment profile and payment dates.
- Rent review dates, break options, indexation details of payments.
- Maintenance costs, dismantling costs, and residual values.
- Capital cost/fair value of the asset.
- The interest rate implicit in the lease (IRR).
- Any initial payments.
- Payment reference number from the Financial Management System.
- Location of the asset and evidence of an annual inspection.

Officers are required to provide Finance Services with the above details once a lease has been completed. Officers are reminded that they must comply with the Financial Regulations when leasing assets, particularly in respect of Orders for Work, Goods and Services and the Payment of Accounts. The original lease document should be retained and must be available for inspection at all times. A copy should be forwarded to Finance Services so that it can be stored in the central database.

All non-property leasing contracts with a value of £10,000 or over should be in writing and in a form approved by the Executive Director (Section 151), Executive Director (Communities), or Executive Director (Place) on behalf of the Council. All property leasing contracts should be in writing and in a form approved by one of the Directors.

On receipt of an invoice in respect of lease payments responsible officers should cross check this to the schedule of expected payments any discrepancies should be queried with the lessor immediately.

## Section 5 – Equalities Impact Assessment

Not applicable.

## Section 6 – Carbon Neutral / Net Zero Benefits

Not applicable.

## Section 7 – Exceptions (if applicable)

Not applicable.

## Appendices

None.