Ormiston Academies Trust

(Academy Name)  
Leasing policy

Policy version control

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| Policy type | Mandatory |
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| Approved by | Joanne Dawson, National Director of Finance and Strategy |
| Release date | May 2023 |
| Review | Policies will be reviewed in line with OAT's internal policy schedule and/or updated when new legislation comes into force |
| Description of changes | * Removal of the need for academies to complete the Lease Checklist – Appendix A. * The OAT Legal Consent Form is now Appendix A. * 2.7 – 2.16 – re-worded, new lines added and lines renumbered to describe processes for authorisation and approval of leases for academies, including use of the OAT Legal Consent Form. |

Contents

[1. Policy statement and principles 3](#_Toc134615099)

[2. Lease classification 3](#_Toc134615100)

[3. ESFA approval 4](#_Toc134615101)

[4. Accounting treatment for an operating lease 5](#_Toc134615102)

[5. Recognition and measurement 5](#_Toc134615103)

[6. Disclosures 6](#_Toc134615104)

[7. Monitoring and review 6](#_Toc134615105)

[8. Linked policies 6](#_Toc134615106)

1. Policy statement and principles
   1. To ensure that the academies only enter into certain leasing arrangements, and that the leases are treated correctly in the financial statements, Ormiston Academies Trust (The Trust) has established a Leasing Policy.
   2. The policy is reviewed every 3 years.
   3. The purpose of this policy is to:

* Provide guidance for staff in understanding the difference between finance and operating leases and to complete a checklist to ensure that the nature of the lease is correctly determined.
* To ensure that the correct approval is sought when entering into different leases.
* To provide guidance for staff on accounting for leases

1. Lease classification
2. 1. A finance lease – a lease is classified as a finance lease if it transfers substantially all of the risks and rewards incidental to ownership to the lessee.
   2. Finance leases are a form of borrowing and must not be entered into without prior approval having been sought from the ESFA. An academy which is considering entering into a finance lease must consult with the National Finance Director (NFD), prior to entering into the lease arrangement.
   3. An operating lease – a lease is classified as an operating lease if it does not transfer substantially all of the risks and rewards incidental to the ownership to the lessee. Operating leases also usually have a term which is significantly shorter than the useful life of the leased asset.
   4. A contract – is an agreement, usually for services that does not meet the definitions above of a lease. A physical lease document also does not need to be signed.
   5. The classification of the lease agreement as an operating lease or a finance lease depends on the substance of the transaction, rather than on the legal form of the contract.
   6. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:
      1. The lease transfers ownership of the asset to the lessee by the end of the lease term.
      2. The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised.
      3. The lease term is for a major part of the economic life of the asset even if title is not transferred.
      4. At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
      5. The leased assets are of such a specialised nature that only the lessee can use them without major modifications.
   7. Upon receipt of a lease agreement from a supplier, academies should in the first instance send this to [sarah.vout@ormistonacademies.co.uk](mailto:sarah.vout@ormistonacademies.co.uk) and [claire.lovell@ormistonacademies.co.uk](mailto:claire.lovell@ormistonacademies.co.uk) In addition to the lease agreement, the academies need to send confirmation of the market value/purchase price of equivalent goods with support, e.g. website screenshot.
   8. The lease agreement that is submitted to head office needs to include the following:

* Terms and conditions of the lease for repairs
* Maintenance details
* Rental amount and frequency
* Contract start and end dates.
  1. The head office finance team will then review the lease and complete the checklist.
  2. HO finance will then inform the academy of the type of lease and conclude if is able to be entered into, the completed checklist will also be returned to the academy. Only after this confirmation can the process continue.
  3. Authorisation on the portal for the operating lease is based on the total value of the life of the lease and is authorised in accordance with the limits set out in accordance with the Financial Delegation of Authority.
  4. Leases must all be physically signed by a Trustee, (electronic signature is fine). Academies should complete Appendix A, which is the OAT Legal Consent Form. This form is self-explanatory but will need to be signed by the Principal and the Head of Academy Finance. The completed checklist should be submitted at the same time.
  5. The Head of Academy Finance will sign to confirm value for money, but also to confirm that all other relevant departments, such as Estates, IT and Procurement are in agreement with entering into the lease. The Head of Academy Finance (HOAF) will then send the completed lease and the legal consent form to the PA of the CEO and the CEO.
  6. The HOAF should confirm that all other relevant departments, such as Estates, IT and procurement have been consulted upon at head office prior to committing to the lease. The relevant Executive should then also sign the consent form.
  7. For all contracts that are greater than 1 year in duration, email authorisation from the HOAF and procurement is needed prior to entering into such contracts, irrespective of their value. All guidance in the procurement policy and the PO process should all be followed as normal.
  8. For a lease extension the process should follow the same as the inception of a new lease and therefore the areas in section 2.9 to 2.13 will need completing. Provided the lease extension is on the same terms, or the terms are the same, but the cost is less, then the checklist will not need to be completed again.

1. ESFA approval
   1. The Trust will obtain approval from the ESFA for the following lease transactions, however the academy must consult with The NFD prior to entering into such an arrangement.

* Taking up a finance lease on any class of asset for any duration from another party.
* Taking up a leasehold or tenancy agreement on land or buildings from another party for a term of seven or more years.
* Granting a leasehold interest, including a tenancy agreement, of any duration, on land and buildings to another party.
  1. Other than the above, The Trust does not require ESFA’s approval for operating leases.
  2. The Trust must ensure that any lease maintains the principles of value for money, regularity, and propriety whether or not ESFA’s approval is required. The Trust should seek advice from their professional adviser and/or external auditor if they are in doubt over whether a lease involves borrowing, following initial consultation with Head Office.
  3. Operating leases may be entered into by the academy. The financial scheme of delegation limits applies to the total lease commitment value.

1. Accounting treatment for an operating lease
   1. A lessee shall recognise lease payments under operating leases (excluding costs for services such as insurance and maintenance) as an expense over the lease term on a straight-line basis unless either:
      1. Another systematic basis is representative of the time pattern of the user’s benefit, even if the payments are not on that basis; or
      2. The payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor’s expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition (4.1.2) is not met.
2. Recognition and measurement
   1. Accounting for an operating lease, does not result in the recognition of the asset or the liability on the academies balance sheet.
   2. Rentals payable under an operating lease are charged on a straight-line basis to the income and expenditure account over the period of the lease.
   3. The lease should be signed in accordance with the scheme of delegation and the details of the lease should be maintained on a contract ledger.
   4. This contract ledger should detail the following:

* The location of the asset to which the lease relates.
* The period to which the lease relates, start and end dates.
* The monthly charge

1. Disclosures
   1. A lessee shall make the following disclosures for operating leases:
      1. The total of future minimum lease payments under non-cancellable operating leases for each of the following periods:
      * not later than one year.
      * later than one year and not later than five years; and
      * later than five years; and
      1. Lease payments recognised as an expense.
2. Monitoring and review
   1. The effectiveness of the Leasing Policy is monitored by the Head of Compliance and Reporting
   2. The policy is reviewed every 3 years.
3. Linked policies
   1. Procurement Policy