

Leasing Policy



Education is for improving lives and for leaving your community and world better than you found it.

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1. Introduction

Community Academies Trust (CAT) is committed to ensuring that its systems of financial governance conform to the requirements of both propriety and sound financial management.

This extends to the entering into of leases, where the Academies Financial Handbook issued by the Education and Skills Funding Agency (ESFA) and Generally Accepted Accounting Principles impose certain requirements.

2. Types of Leases

There are two types of lease; operating lease and finance lease. The characteristics are as described in Appendix 1 below.

Under the Academies Financial Handbook, academies are not permitted to enter into finance leases (which are a type of borrowing) without obtaining prior ESFA approval. It is unlikely that such approval will be given other than in exceptional circumstances and therefore Community Academies Trust has a policy of not entering into finance leases.

Community Academies Trust may enter into operating leases without the ESFA's approval (with certain exceptions relating to land and buildings). In these cases the trust has its own procedures to approve and sign such leases.

3. Approval of Operating Leases

The Scheme of Financial Delegation for the trust details the levels of authority regarding entering into operating leases as follows:

Headteacher

Maintains a contracts register in school containing all operating leases and ensures that the central CAT contracts register is updated for new leases.

Ensures new leases are procured correctly and recommends the contract which is best value to money for approval.

Executive Director (Education)/Chief Executive Officer

Review and approve all operating leases up to a total value of £10,000.

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Board of Directors

Review and approve all operating leases over a total value of £10,000.

Executive Director (Finance and [Resources Operations](#))

Sign all operating leases over one year irrespective of value.

4. Procurement and Value for Money

Schools must ensure that any lease arrangement maintains the principles of value for money, regularity and propriety. When entering into an operating lease the value of the contract is calculated as the amount of any payment multiplied by the number of payments that will be made under the lease. Using this value determines the authority level required for the procurement under the Scheme of Financial Delegation and procurement policy. The procurement policy also determines the number of quotes or tenders that will be required.

If you are unsure as to whether a proposed lease is operating or finance then advice should be taken from the central finance team or ultimately the Executive Director (Finance and Operations) before proceeding.

When signing any lease the Executive Director (Finance and Operations) will consider the following:

- Whether the lease is operating or finance
- All terms and conditions of the contract are understood
- Whether the equipment is new or refurbished
- The expected life of the equipment and whether the lease is for longer than this
- The costs and any potential for costs to increase
- Cost of early settlement
- [What happens at the end of the lease](#)
- Ensuring that no previous leases are “rolled up” into the new lease
- The cost of the equipment is filled in and is reasonable compared to outright purchase.

5. Land and Buildings

The trust must obtain ESFA consent before entering into the following leasing transactions:

- Taking up a leasehold or tenancy agreement on land or buildings from another party
- Granting a leasehold interest, including a tenancy agreement, on land and buildings to another party.

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Should a school be thinking about entering into such agreements then advice should be sought from the Executive Director (Finance and Operations) in advance who will obtain the necessary permissions.

The Scheme of Financial Delegation for the trust details the levels of authority regarding granting of a lease or licence over 1 year as follows:

Headteacher

Recommend that a lease or licence should be entered into.

Local Governing Body

Review the recommendation of the Headteacher. Where supported, recommend to Accounting Officer that the lease should be entered into.

Executive Director (Finance and Operations)

Review recommendation from Local Governing Body and recommend course of action to Accounting Officer or Board of Directors, depending on value.

Accounting Officer

Review and approve all leases up to a total value of £10,000.

Board of Directors

Review and approve all leases over a total value of £10,000

6. Financial Disclosure

The financial disclosure of leases in the Financial Statements of the trust is the responsibility of the Executive Director (Finance and Operations) and central finance team, relying on the register of all leases kept in the central team and updated in conjunction with school staff.

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Appendix 1

Identification of Operating Lease or Finance Lease

The following explanation of the difference between an operating lease and a finance lease is provided by the Institute of School Business Leadership (ISBL).

Operating Lease:

An Operating Lease requires the school to pay only a proportion of the capital value of the equipment and over a shorter agreement term, classed usually as the equipment's 'useful economic life.'

The lease company is required to take "sufficient risk" in the lease. This is defined as the lease rentals must not exceed 90% of the original capital cost (excluding interest).

The length of the agreement should not exceed the expected 'useful economic life' of the equipment (equipment such as MFDs and photocopiers typically have a useful life of 3-4 years). If you are offered longer, consider the expected whole life of the asset and lease for a term which represents a proportion of this.

At the end of the agreed lease term, the school can choose to either return the equipment or continue with the rental agreement but be mindful of the point above on "useful life" of equipment. The ownership of the asset should remain with the leasing company. There should be no option for the school to gain ownership of the asset at any time.

The leasing company might retain responsibility for maintenance

Payments are shown on the profit and loss account and not the balance sheet due to the nature of the payments

Finance Lease:

The finance company or lessor is the legal owner of the asset yet will permit the school to have use of that asset during the lease, paid for via a series of rentals or instalments over an agreed term.

A finance lease is a form of borrowing, where 100% of the capital plus interest is repaid during the primary term

The school has the option to keep the asset by either paying the last rental or in some cases, paying a nominal fee or a significantly reduced purchase price.

Under a finance lease, the school repays rentals over the term of the lease but the rentals are not discounted. During the lease term the total rentals will normally cover the value of the asset.

Questions to ask about finance and operating leases

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If you are not sure about the type of lease being offered, it is worth asking the following questions using the tables below in order to find out more. Questions to ask to ascertain whether the lease is operating or finance:

Question	Answer	Answer
Does the lease transfer ownership of the asset to the lessee (i.e. the school) by the end of the lease term?	Yes - finance lease	No - operating lease
Does the lessee have the option to purchase the asset at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised?	Yes - finance lease	No - operating lease
Is the lease term for the major part of the economic life of the asset, even if title is not transferred?	Yes - finance lease	No - operating lease
At the inception of the lease does the Net Present Value of the minimum lease payments amount to at least substantially all of the fair value of the leased asset?	Yes - finance lease	No - operating lease
Are the leased assets of a specialised nature such that only the lessee can use them without major modifications being made?	Yes - finance lease	No - operating lease

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