

Leasing as a Strategic Financial Tool for UK Schools?

WHITE PAPER

Supporting Budget Resilience in Maintained Schools and Academy Trusts

UK schools are operating in an increasingly constrained financial environment, with rising costs, ageing estates, and limited access to capital funding. Leasing has evolved into a strategic financial tool that enables schools to manage cash flow, maintain essential infrastructure, and respond to unexpected expenditure.

Executive Summary

Recent regulatory developments have fundamentally changed the leasing landscape:

IFRS 16 (2024)

For maintained schools — eliminates the distinction between operating and finance leases.

Secretary of State Class Consent (2024)

Enabling compliant leasing across a range of approved asset categories.

FRS 102 Updates (Effective 2026)

Removing the distinction between operating and finance leases for academy trusts.

- ⓘ These changes collectively move the sector toward a single **"right-of-use" accounting model**, significantly increasing the strategic relevance of leasing in supporting budgets.

Regulatory and Policy Framework

Borrowing Restrictions

Schools in England operate under strict borrowing controls:


- Maintained schools require Secretary of State consent under the Education Act
- Academy trusts must comply with the Academy Trust Handbook issued by the Department for Education

Historically, these restrictions limited leasing flexibility because finance leases were treated as borrowing.

Maintained Schools: IFRS 16 (From April 2024)

Maintained schools now apply IFRS 16, which:

- Eliminates the distinction between operating and finance leases
- Requires recognition of a right-of-use asset
- Requires recognition of a lease liability

 → All leases are effectively treated as borrowing for accounting purposes.

Secretary of State Class Consent (2024)

To address this, the Department for Education introduced: **IFRS16 Maintained Schools Finance Lease Class Consent 2024**

This provides blanket approval for leasing specific asset classes, including:

ICT Equipment


Furniture

Catering Equipment

**Grounds
Maintenance**

LED Lighting

Vehicles & Temporary Buildings

 **Strategic impact:** Leasing is now a practical and compliant funding mechanism for day-to-day operational assets.

Academy Trusts: FRS 102 Changes (Effective 2026)

A major shift is now underway for academy trusts. Under updated FRS 102 (aligned to IFRS 16 principles):



Lease Classification Removed

The distinction between operating leases and finance leases is removed.



Right-of-Use Model

Most leases will be accounted for using a right-of-use model.



Balance Sheet Impact

Lease liabilities will appear on the balance sheet.



➔ This mirrors IFRS 16 and represents a fundamental change in academy financial reporting.

Implications

- Leasing will no longer provide off-balance-sheet treatment
- Financial statements will show: Asset (right-of-use) and Liability (lease obligation)

Accounting Treatment: A Unified Model Emerging

Maintained Schools (IFRS 16)

- All leases capitalised
- Depreciation + interest recognised
- Balance sheet reflects full obligation

Academy Trusts (New FRS 102)

From 2026:

- Single lease accounting model
- Right-of-use asset + lease liability
- Removal of operating lease expense-only treatment

Strategic Interpretation

Across both sectors, the direction of travel is clear:

Leasing is now treated consistently as a form of financing, not simply a procurement option.

This increases:

- ◆ Transparency
- ◆ Comparability
- ◆ Scrutiny of leasing decisions

Leasing as a Strategic Financial Tool



Cash Flow Preservation

Leasing enables schools to avoid large upfront capital expenditure, spread costs over time, and preserve reserves for critical risks. This is particularly important given rising energy costs and unpredictable estate failures.



Asset Lifecycle Management

Leasing supports regular refresh cycles (e.g. ICT every 3–5 years), reduced maintenance risk, and access to modern, efficient equipment.



Budget Stability and Planning

Fixed lease payments improve financial forecasting, align costs with asset use, and support multi-year budgeting.



Strategic Use of Revenue vs Capital

Leasing allows schools to use revenue budgets for asset access and retain capital funding for building maintenance, compliance works, and strategic estate investment.

Sale and Leaseback as a Capital Release Strategy

Overview

Sale and leaseback allows a school to sell a recently purchased asset and lease it back over time. This converts locked-in capital into immediate liquidity.

Strategic Applications in Schools

This approach is particularly valuable in scenarios such as unbudgeted works:

→ Boiler failure requiring urgent replacement

→ Structural repairs or compliance works

→ RAAC mitigation

→ Emergency safeguarding works

Suitable Assets

Assets commonly used include:

- ICT estates
- Catering equipment
- Energy efficiency installations (e.g. LED lighting)

Plus other assets that fall within class consent categories, ensuring compliance.

Risks and Governance

Key considerations:

- Total cost of financing over time
- Lease term contractual commitments
- Balance sheet impact under IFRS 16 / FRS 102
- Value-for-money scrutiny

Benefits

- Immediate access to capital without new funding approvals
- No disruption to operational use of assets
- Converts capital into manageable revenue payments

Governance and Compliance Requirements



Core Requirements

Schools must ensure:

- ◆ Asset eligibility under class consent
- ◆ Compliance with procurement regulations
- ◆ Transparent decision-making
- ◆ Affordability over the lease term



When Consent is Still Required

Additional approval is needed where:

- ◆ Assets fall outside approved categories
- ◆ Schools are under financial intervention

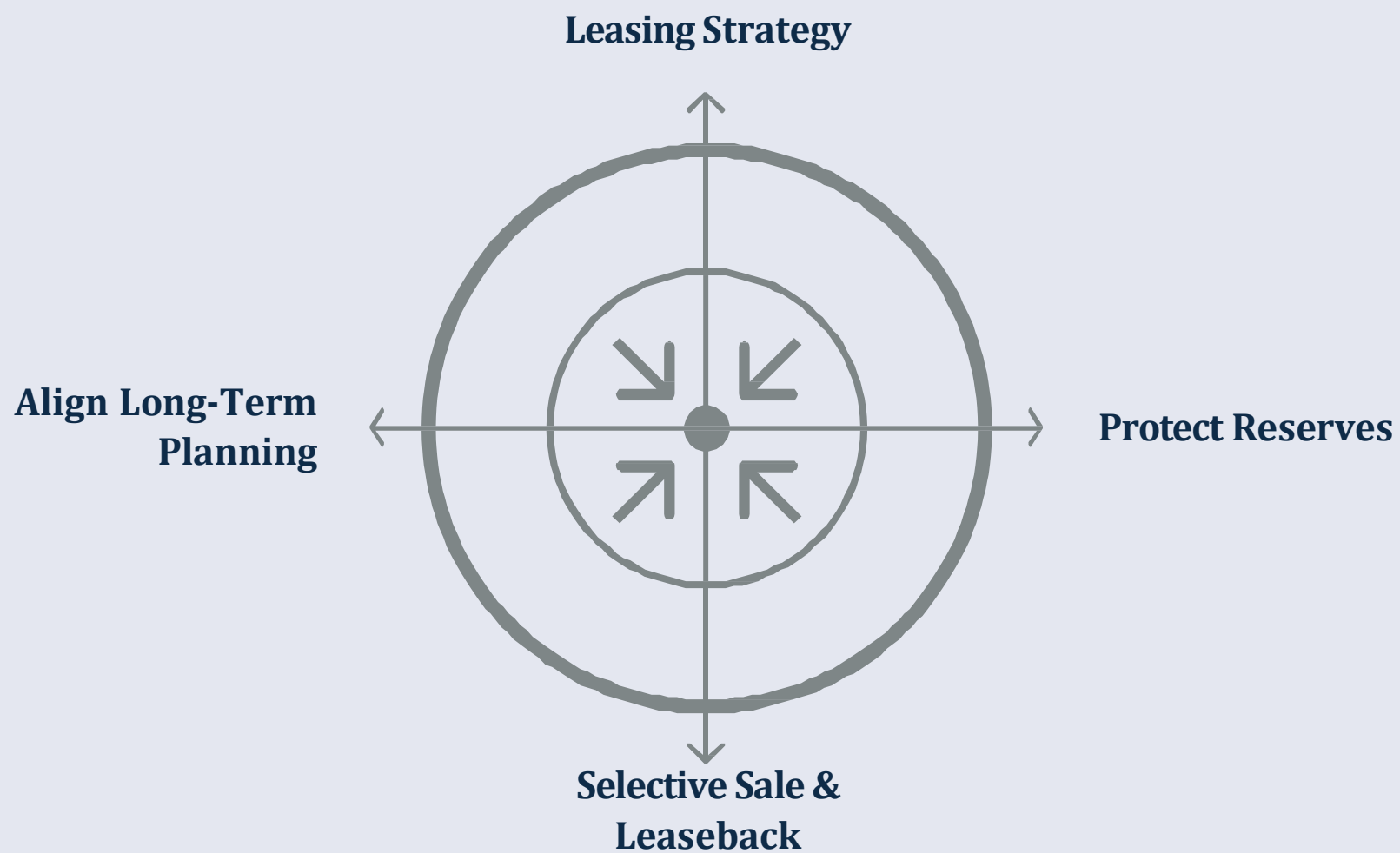


Audit and Financial Oversight

Leasing decisions must be:

- ◆ Clearly documented
- ◆ Supported by option appraisals
- ◆ Reflected accurately in financial statements

Strategic Recommendations



These four pillars form a coherent framework for schools to embed leasing as a core financial strategy rather than a reactive procurement tool.

Develop a Leasing Strategy

Schools should implement:

- Clear lease vs buy criteria
- Financial modelling standards
- Governance frameworks

Protect Reserves Through Leasing

Use leasing to:

- Preserve cash for high-risk estate issues
- Avoid reactive financial decisions

Use Sale and Leaseback Selectively

Appropriate where:

- Immediate capital is essential
- Assets are already owned and recently purchased
- Long-term affordability is secure

Align with Long-Term Financial Planning

- Match lease terms to asset life
- Avoid over-commitment of future budgets
- Integrate with estates and ICT strategies

Conclusion

Leasing has transitioned from a tactical procurement tool to a core financial strategy for UK schools.

IFRS 16

In maintained schools

FRS 102 Reform

Removing lease classification distinctions in academies

Class Consent

Secretary of State consent enabling compliant leasing

The sector now operates under a consistent, transparent leasing framework. Leasing, together with tools such as sale and leaseback—can unlock capital, stabilise budgets, and enable rapid response to unforeseen costs. However, its success depends on strong governance, full regulatory compliance, and rigorous financial planning.

References

- Department for Education, *Leasing for maintained schools* (2025)
- Department for Education, *IFRS16 Maintained Schools Finance Lease Class Consent 2024*
- Department for Education, *Academy Trust Handbook* (2025)
- Financial Reporting Council, *FRS 102 – Amendments aligning with IFRS 16 principles* (effective 2026)
- CIPFA / LASAAC, *IFRS 16 implementation guidance for local authorities and schools*
- Crown Commercial Service & CPC, *Leasing frameworks and guidance for schools*