

# Leasing vs Buying in the NHS (2026)

WHITE PAPER

## VAT Constraints, IFRS 16, and the Rise of Managed Service Models

NHS organisations face a unique challenge when financing assets. Leasing often attracts irrecoverable VAT, capital budgets are constrained, and demand for equipment is rising across diagnostics, beds, and infrastructure. As a result, many NHS Trusts are shifting toward **outsourced and managed service models** — structures that enable VAT recovery or mitigation, align with revenue budgets, and deliver end-to-end service rather than asset ownership.

# NHS Financial & Procurement Context

## The NHS operates under intense pressure:

- ◆ Backlog and elective recovery targets
- ◆ Ageing equipment base
- ◆ Capital funding constraints

## Procurement is governed by:

- Value for money requirements
- Framework-based purchasing
- Strict financial reporting standards

□ **Financing structure is often as important as the asset itself.**

# Buying (CAPEX Model in NHS)

## Advantages

- Full asset ownership
- No ongoing financing costs
- No VAT leakage — VAT often recoverable on capital purchases via special arrangements

## Limitations

- Requires capital approval, which is often delayed
- Competes with other priorities
- Slows down deployment of critical equipment

# Standard Leasing Model: The Key Problem

## The VAT Issue

Under standard leasing:

- Lease payments are treated as a supply of services
- VAT is charged on payments
- NHS bodies typically cannot fully recover VAT on leased assets

**Leasing becomes ~20% more expensive in real terms**

This is the single biggest barrier to leasing adoption in the NHS.

## IFRS 16 Impact in NHS

Like other public bodies, leases are now on-balance sheet and recognised as a **right-of-use asset** and a **lease liability**. Leasing is now treated similarly to borrowing, increasing scrutiny. However, **IFRS 16 does not solve the VAT problem.**

# The Solution: Managed Service / Outsourced Models

## What is a Managed Service?

Instead of leasing equipment, the NHS procures **a fully managed service**. This includes:



**Equipment**



**Maintenance**



**Upgrades**



**Staffing (sometimes)**

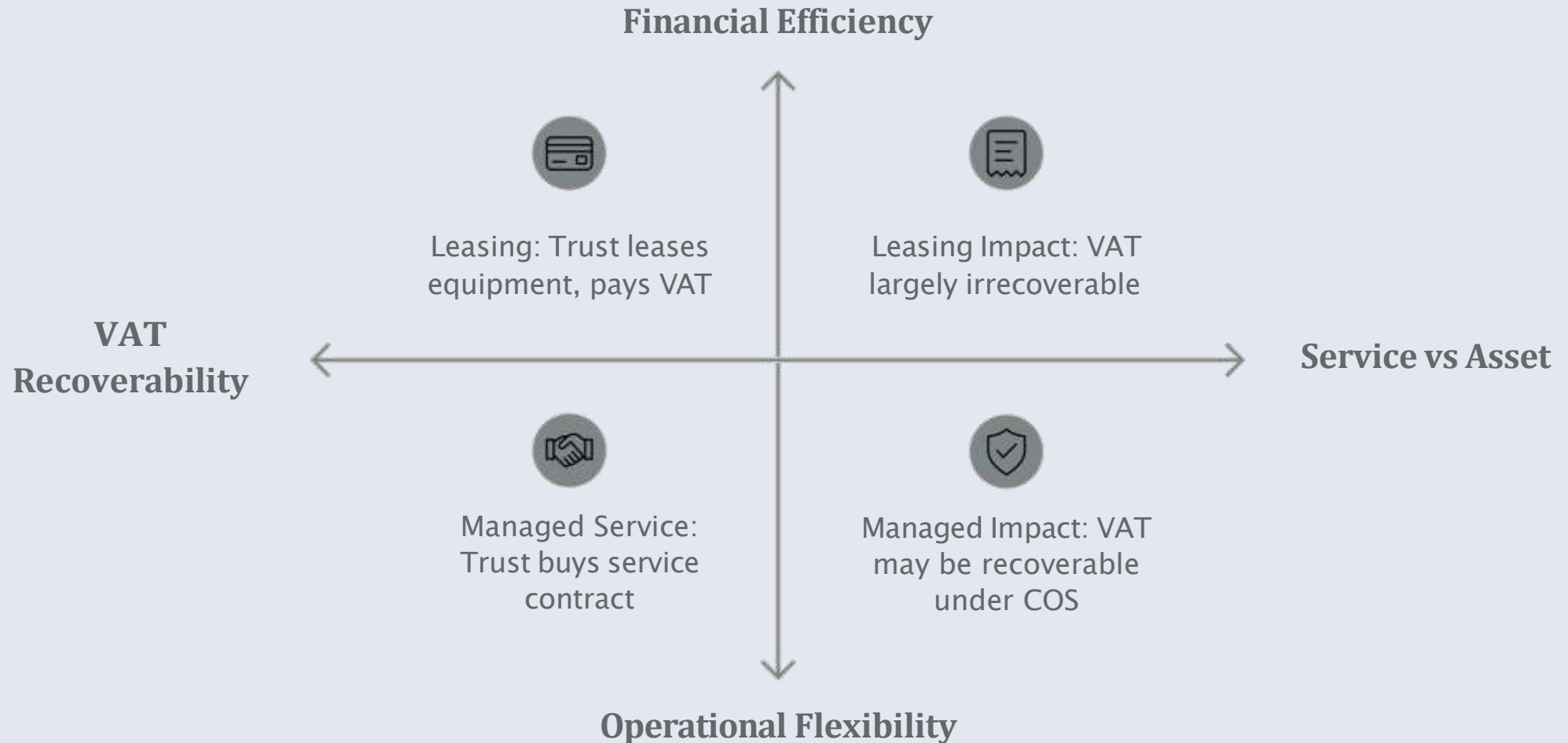


**Outcomes (e.g. scans delivered)**

## Why This Changes VAT Treatment

Under UK VAT rules, certain outsourced services to the NHS may qualify for **VAT recovery under Contracted-Out Services (COS) rules**. This means VAT becomes recoverable or neutral — eliminating the leasing VAT penalty.

# How It Works: Commercial Structure



The shift from a leasing model to a managed service model fundamentally changes how VAT is treated, moving the NHS from a position of irrecoverable cost to one of financial efficiency and operational flexibility.



# Key NHS Use Cases

1

## Diagnostic Imaging (MRI / CT)

**Challenge:** High-cost equipment (£1M+) and rapid demand growth.

**Solution:** Managed service contracts — pay per scan or per month. Supplier provides equipment and maintenance. Eliminates capital barrier and reduces VAT inefficiency.

2

## Ward Equipment & Beds

**Challenge:** Large-scale equipment upgrades and budget constraints.

**Solution:** Bundled service contracts covering equipment and lifecycle management.

3

## Community & Mobile Services

**Challenge:** Need for rapid deployment and uncertain long-term demand.

**Solution:** Fully outsourced mobile service with flexible contract structures.

# Financial Comparison

<b>Criteria</b>	<b>Buying</b>	<b>Leasing</b>	<b>Managed Service</b>
Upfront Cost	High	Low	Low
VAT Efficiency	High	Low	High
Flexibility	Low	Medium	High
Speed	Slow	Medium	Fast
Maintenance	Internal	Partial	Included
Outcome Focus	No	No	Yes



# Strategic Implications for NHS Trusts

## Why Managed Services Are Growing

### 1 VAT efficiency

Avoids unrecoverable VAT

### 2 Operational simplicity

Supplier manages lifecycle

### 3 Outcome-based procurement

Aligns with NHS transformation goals

### 4 Risk transfer

Technology and maintenance risks shift to provider

## When to Use Each Model

### Buy When:

- Capital funding is available
- Asset is long-term and stable
- VAT recovery is possible

### Lease When:

- VAT impact is acceptable
- Short-term flexibility needed
- No viable service model exists

### Use Managed Service When:

- ◆ VAT is a major cost issue
- ◆ Asset is complex or high value
- ◆ Outcomes matter more than ownership
- ◆ Speed and scalability are critical

# Conclusion & Key References

## Managed service models are the optimal middle ground

In the NHS, standard leasing is structurally disadvantaged due to VAT, and buying is constrained by capital availability. Managed service models deliver:

### **Financial Efficiency**

VAT recovery or neutrality under COS rules

### **Operational Flexibility**

Supplier manages lifecycle and risk

### **Faster Patient Impact**

Rapid deployment without capital delays

## Key Data & Policy References

- HM Treasury – Public Sector VAT (Contracted-Out Services)
- NHS England – Capital and Revenue Funding Guidance
- Department of Health & Social Care – Procurement Policy
- IFRS 16 (Public Sector Adaptation)
- NHS Supply Chain Frameworks