



Scottish Funding Council
Comhairle Maoineachaidh na h-Alba

SFC Call for Information

Reference: SFC/CI/03/2026

Issue date: 18/03/2026

FRS 102 SECTION 20 – LEASES



FRS 102 Section 20 – Leases

Issue Date:	18 March 2026
Reference:	SFC/CI/03/2026
Summary:	Call for information relating to operating leases to provide necessary budgetary information to the Scottish Government.
FAO:	Principals and Finance Directors of Scotland’s incorporated regional colleges, University of the Highlands and Islands, and the general public.
Further Information:	EMAIL: isg-returns@sfc.ac.uk

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FRS 102 Section 20 – Leases

Background

1. The new [Statement of Recommended Practice: Accounting for Further and Higher Education \(FE/HE SORP\)](#), published on 31 October 2025, will take effect from the 2026-27 academic year (AY). The guidance on leases has been updated to reflect the new lease accounting requirements in FRS 102 Section 20 **Leases**, based on the on-balance sheet model from IFRS 16: Leases (as adopted by the UK). This is effective for colleges from 1 August 2026.
2. The current accounting treatment under IAS 17 classifies leases into two types:
 - A finance lease if the lease transfers substantially all the risks and rewards incidental to ownership i.e. capitalised with interest and depreciation charges each year to resource.
 - An operating lease if the lease does not transfer substantially all the risks and rewards incidental to ownership i.e. pay cash, charge to expenditure.
3. The revised FRS 102 Section 20 **Leases**, aligned to the principles of IFRS 16, removes this distinction between operating and finance leases. Under the revised standard:
 - Lessees are now required to recognise most leases on the balance sheet.
 - The previous distinction between operating leases and finance leases for lessees is removed.
 - A Right-of-Use (RoU) asset and a corresponding lease liability are recognised at lease commencement.
4. The transition from IAS 17 to the revised FRS 102 Section 20 **Leases** will have an impact on both capital and revenue budgets for incorporated colleges from 2026/27 financial year and beyond. The Scottish Government requires information from the Scottish Funding Council (SFC) to adjust future budgets.
5. This guidance and call for information:
 - Clarifies the budgeting treatment that will apply to incorporated colleges' leases on implementation of FRS 102 Section 20 Leases.
 - Requests operating lease information from incorporated colleges to estimate budget requirements.
6. The guiding principle is that the budgeting and accounting treatment for leases will be aligned.
7. Separate accounting guidance will be issued by SFC in due course. This document

highlights key transition points to enable SFC and the Scottish Government estimate the budgeting impact.

Accounting treatment

8. The revised FRS 102 Section 20 applies to all leases where the institution controls the use of an identified asset for a period of time in exchange for consideration.
9. SFC will prepare detailed guidance regarding implementation of the revised standard in due course.
10. The accounting impact of initial application will include:
 - A significant cumulative adjustment to the opening balance of retained earnings on the date of initial application, 1 August 2026.
 - Recognition of a lease liability, being the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate or obtainable borrowing rate at the date of initial application.
 - A right-of-use asset recognised at a value equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

Budgeting treatment

11. For lessees, the accounting impact of the revised FRS 102 Section 20 means that most leases come on balance sheet. An on-balance sheet lease has three impacts on resource and capital:
 - Capital expenditure at lease commencement, for the asset recognised on balance sheet (capital budget impact).
 - Resource expenditure for depreciation charge for leases (ringfenced non-cash revenue budget).
 - Resource expenditure for the interest incurred over the life of the lease, as annual cash payments on the lease now score as working capital movements (revenue budget).
12. Peppercorn leases – The treatment for a peppercorn lease (a lease with nil or nominal consideration) is identical to that of a donated asset/capital grant-in-kind. This likely does not meet the definition of a lease under FRS 102.
13. Dilapidation provisions – The revised FRS 102 Section 20 requires dilapidation provisions to be capitalised as part of the cost of the right-of-use asset. These dilapidation

provisions should be treated as provisions in respect of capital expenditure for budgeting purposes.

14. The Scottish Government requires estimates of these budgetary implications to amend capital and revenue budgets for future years. A significant portion of the additional budget requirement is covered by the non-cash budget.

Call for information

15. SFC requires high-level information to estimate capital and revenue budgets required by incorporated colleges for leases that will be recognised on balance sheet for the period from initial adoption of the standard to the end of AY 2028-29. This will be collated and provided to the Scottish Government to support adjustments to future budgets.
16. This return for information is for leases currently identified and accounted for as operating leases. This should be the best estimate available at the current time.
17. A table has been published along with this call for information on the SFC website, requiring the following information for each operating lease:
 - Nature of the lease (property/non-property).
 - Start date of the lease.
 - End date of the lease.
 - Annual lease payment.
 - Dilapidations.
 - Discount rate.
 - Details of any rent-free periods/lease incentives.
18. Please include all leases identified to date over a value of £5,000 in this return. This allows a reasonable estimation of budget cover and does not constitute a “low value” threshold. Further guidance will be provided by SFC regarding the definition of “low value” leases once all returns are received.
19. This call for information will be followed up with a request for more detailed information over the summer period. Incorporated colleges are asked to review all operating leases to be brought on to the balance sheet and then calculate the right-of-use asset and lease liability values for the subsequent request. Guidance will be provided by SFC to assist.
20. The following information should also be included:
 - New operating leases that the college expects to commence between now and 31 July 2026.

- Peppercorn leases for completeness.
21. Please email an electronic copy of the return in Excel format to isg-returns@sfc.ac.uk by **Friday 10 April 2026** or earlier.

Further information

22. Please contact Institutional Financial Health, email: isg-returns@sfc.ac.uk to discuss any aspect of this letter.

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