**Leasehold Improvements: Acquisition and Maintenance**

1. Leasehold improvements in UNDP are improvements made to commercially leased premises where the lease agreement was signed by UNDP, donated right to use premises occupied by UNDP or any premise that is not OWNED by UNDP. Such improvements will only be capitalized if the total cost of improvement exceeds US$50,000. Each improvement will be based on an identifiable improvement to the building **e.g. installation of fire safety equipment; Renovations to roof etc. and all the costs associated with the improvement will be consolidated to obtain the cost of the improvement. Improvements may also be classified by floor or location e.g. 5th floor office renovations or building 6 office renovations.**

1. There are many types of Leasehold Improvements. These **include fixed lighting fixtures, heating and other infrastructure enhancements. Improvements can also include new construction such as rooms, additions, immovable partitions, entrances, security infrastructure or permanent enhancements to the outside appearance of a structure.**  **Landscaping may also be classified as Leasehold Improvement. Note that LHI excludes regular maintenance tasks.**

1. Leasehold Improvements are capitalized if the service potential of the tangible capital asset is enhanced. For UNDP purposes, a Leasehold Improvement will be capitalized (i.e. the total cost of the asset is expensed over several [accounting periods](https://www.dictionary.com/browse/accounting-period?s=t)instead of [expensed](https://www.dictionary.com/browse/expensed?s=t) upon purchase) if it meets the following criteria:

* 1. Provides future economic or service benefits to UNDP.
  2. Is expected to be used during more than one reporting period (which in UNDP is 12 months);
  3. Has a value of USD 50,000 or more.
  4. Is used and controlled by UNDP.
  5. Has a cost that can be reliably determined.

1. **In addition to these criteria, for an expense to be treated as a Leasehold Improvement, UNDP must have the right to use and the responsibility to maintain that improvement.**

1. Leasehold Improvement such as renovation will not be disposed or written off as they are attached to the building. UNDP’s standard lease agreement contains the following Article:

*“Where, with the prior written consent of the Lessor, major alterations, renovations or additions are made on the demised Premises, the UNDP shall not be under any obligation to restore the demised Premises to the state and conditions existing prior to entering upon the same under this Lease Agreement. Such consent shall be set forth in writing and shall contain provisions on the amortization or compensation of the expenses either through offsetting the expenses against rental payments, or payment for their fair market value.”*

1. Therefore, there is no disposal of Lease Hold Improvement. However, should an occasion arise where UNDP is able to dismantle the improvement in line with the terms and conditions of the lease and dispose of the item, the disposal processes laid down under the equipment POPP should be followed.

1. When a lease is terminated before the Leasehold Improvement is fully depreciated, the undepreciated amount (NBV) of improvement in UNDPs Quantum Asset module will need to be written off the books in full. Such Write-Offs should follow the proper approval mechanisms laid down for Write-Offs under the POPP Furniture & Equipment Disposal and Write-off

# Characteristics of Leasehold Improvement

1. The improvement must be made to leased property;

1. UNDP must pay for the improvement (either up front or over the remaining term of the lease); or a donor performs improvement on behalf of UNDP. (In such cases, a fair market value will be used to determine to the value equivalent to what a rational willing buyer and a rational willing seller are willing to transact for the item in a competitive market.)

1. The improvement must provide benefits that are long-term in nature (i.e., extend over more than one reporting period);

1. The improvement becomes part of the property.

1. After the lease is terminated by either UNDP or the landlord, the Leasehold Improvements become the property of the landlord, who may do whatever he/she wants with the improvements. Alternatively, UNDP may be required to decommission the Leasehold Improvements at UNDP’s cost. This action is addressed in the ”Decommissioning and Similar Costs” section below.

1. Before making any improvement, UNDP Offices should ensure that the lease terms permit such improvements. For instance, it may be the case that the removal/decommissioning costs are captured when the works are agreed with the Landlord. The improvements must be factored in as part of the overall process of UNDP’s engagement/continuing relationship with the Landlord.

# Disallowed improvements

1. When leasing premises, there are some items that cannot be considered as leasehold improvements**. These items are those that can be moved or taken out of the building when UNDP’s lease term comes to an end. Examples of these would be movable wall partitions or panels, mobile workstation partitions, movable phone lines, appliances, office furniture, equipment, signs that can be easily removed and carpeting that is not attached to the floor.** These items are mostly classified as Furniture and Fittings (F&F), not Leasehold Improvements. Such items should be recorded as Furniture and Fittings in line with the PP&E policy on Furniture & Equipment.

1. If these movable items are left behind by UNDP when the lease comes to an end, they are treated as the property of the landlord because they are considered abandoned and must be written off by UNDP.

1. Mobile buildings such as trailers or mobile homes are not considered Leasehold Improvements.

1. Repairs and Maintenance expenditure should not be classified as Leasehold Improvements as these are improvements done in the normal course of business e.g.
   1. Wallpapering and painting
   2. Caulking seams
   3. Repairing a roof
   4. Mending plaster

1. In case of ambiguity with this policy, the respective unit should consult the General Operations/Bureau for Management Services for clarification.

## To Non-UNDP Leased Premises

19. In the rare case that a Leasehold Improvement is made using UNDP funds on a non-UNDP premise or a leased office where UNDP did not sign the lease, the amount will be expensed as UNDP does not own or lease the premises.

## To UNDP Leased Premises

1. In UNDP, a Leasehold Improvement made using UNDP funds or made by a donor on behalf of UNDP, in a premise where UNDP signed a lease, will be recognized as a capital asset.

* 1. The value of the Leasehold Improvement (i.e. its total cost) will be depreciated (i.e.

expensed) over the lease term. The lease term is different from the total lease duration.

* 1. The lease term is the primary non-cancellable period of the lease together with any secondary periods during which UNDP has the contractual right to continue to use the premise. For example, UNDP can have a lease term of 5 years but practically stay in a building for 20 years due to contractual first right to opt for extension of the lease. The lease term would therefore be 20 years if at the inception UNDP planned to stay for 20 years even though it only signed an initial 5-year lease. It is important to consider the lease term at the inception of the lease.

1. For UNDP purposes, all LHI will be assigned a useful life of 10 years.

## Types of Operational Leases

22. Operational Leases

1. **Commercial Lease:** A commercial lease is a contract between UNDP and a private company, in exchange for the usage of the premise, the landlord receives a payment or series of payments from UNDP over the lease term. Where the lease term covers more than one accounting (reporting) period), the leasehold improvements have to be capitalized and depreciated over the lease term period. In UNDP this will be over 10 years.

1. **Standard Basic Assistance Agreement (SBAA) and other Government Leases:** According to the SBAA, the host government, as the counterpart of UNDP involvement in the country, has to provide UNDP with *“an appropriate office with equipment and supplies, adequate to serve as local headquarters for the UNDP in the country” and “the government shall have the option of providing in kind facilities […]”.* When a recipient government chooses to donate office premises, an agreement between the government and UNDP is signed. The facilities are provided rent free (referred to as donated right to use premises). If UNDP intends to use the premises for more than one accounting period, the LHI on such property must be capitalized and depreciated over 10 years. Depreciation is automated and run on a monthly basis centrally.

1. **Rent Free Leases:** UNDP may receive the right to use premises at no cost - for example, the rent free leases provided by the German government (UNV premises); and by the Danish government (Copenhagen premises) (Also referred to as donated right to use premises). In most of these cases, the lease is cancellable. If UNDP intends to use the premises for more than one accounting or reporting period, the leasehold improvements must be capitalized and depreciated over 10 years.

**Common Types of Leasehold Improvements**

## Flooring Improvements

23. These are improvements made to the floor(s) of the leased premises and provide long-term benefits to UNDP as it uses the premises. Examples of flooring improvement include:

1. Parquet, Vinyl and Tile flooring
2. Fixed immovable carpets
3. Reconstruction of floor base

## Structural Improvements

24. Structural improvements are those that are made to the structure of the building; and provide long-term benefits to UNDP; and that by extending its useful life and by improving its usefulness. Examples of structural improvements include:

1. Addition of permanent walls
2. Addition of store house or extension
3. Any structural enhancement to wall or foundation
4. Installation of new doors with frames

## Window Improvements

25. Window improvements are those that are made to the windows that provide long-term benefits to UNDP as it continues leasing the premise. Examples include replacement of windows.

## Roofing Improvements

26. These are improvements of a capital nature made to the roof of leased premises and that provide long term benefits to UNDP as it leases the premises. Examples include replacement of roof and support beams.

## Aesthetic Improvements

27. These are improvements made to a leased premise to enhance the working environment of the building. Examples include:

1. Installation of heating and cooling systems
2. Ventilation system enhancements
3. Immovable interior partitions made up of drywall, glass and metal
4. Restroom accessories

## Security Improvements

28. These include the installation of:

1. A Heavy duty burglar alarm systems
2. Access card readers
3. Security grills
4. Walls and Fences

## Fixtures

29. These improvements include fixtures of a permanent nature that cannot be moved or uninstalled. For example:

1. Electric lighting fixtures
2. Landscaping fixtures and sculptures

## Authority to Acquire LHI

30. Any costs associated with improvements to a UNDP building is to be approved in line with the delegated procurement authority guidelines.

## Recording of Leasehold Improvements (LHI)

31. The capitalization of improvements to a leased property as Leasehold Improvement is determined based on whether the improvement becomes a permanent integral part of the leased property or not; and whether the improvements comply with the three criteria mentioned under section 3. Leasehold Improvements will be recorded as follows:

1. Before commencing a LHI project, a country office (CO) or HQ unit will need to inform GSSC of the fact that they are creating a project and/or a new task in Quantum or using an existing one/s to track LHI. This will be done through UNall .) . COs will have to specify the Leasehold Improvement asset category in the Additional Information section of project task in Project Financial Information (PPM).

1. CO must also keep backup documentation available for review by GSSC.

1. All expenses charged to this specific task will be transferred to Fixed Assets and those that qualify will be added/merged to the Asset Type CIP, by GSSC until all the costs have been captured.

1. At the point when the LHI is complete, all costs have been captured and the LHI is ready for capitalizing, the Asset Focal Point will submit a request through UNall & GSSC will capitalise the CIP asset with the in-service date provided by the CO at which point the depreciation cycle will commence.

## Tagging of LHI

32. LHI are normally part of the building structure or attached to the compound and are therefore immovable and, like buildings and land, they require no tagging. The building or land reference (plot) number may be used in place of a tag in the Quantum Asset management system.

## Decommissioning and Similar Costs

1. UNDP is required to recognize a liability (an amount due to a third party) when the terms of a lease include a clause requiring UNDP to remove Leasehold Improvements or other fixed assets from the leased premises. The removal of LHI or other fixed asset is known as “Decommissioning.” The valuation of the Decommissioning costs should be reasonably estimated. The probability of a requirement to decommission LHI will have to be analysed by Country Offices. In some cases, even if the contract includes a requirement for UNDP to decommission LHI, it is likely that the landlord will consider the LHI as an enhancement of its property and will prefer to keep the LHI instead of decommissioning or removing it. When the probability of Decommissioning is very low, no liability has to be recorded and accounted for. This decision is based on professional judgment and should take into account UNDP’s past experience and the CCO’s judgment. For all LHI recorded during the year, GSSC will review the associated leases to determine whether or not a decommissioning liability is required and seek the view of the country office to determine an objective and independent estimate of the Decommissioning liability. Where there are no decommissioning costs, no accounting entries are required and no action needs to be taken by the CO or HQ operating unit.

1. UNDP will recognize a liability for a Decommissioning Expense where the following conditions are met:

* 1. UNDP has a present requirement: the Lease imposes a contractual requirement on UNDP to remove the asset at the end of the asset’s useful life or upon vacating the premises;

* 1. It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;

* 1. It is probable that the Landlord is going to apply the decommissioning clause of the Lease. [In the case of UNDP, it is necessary to take into account past experience. In some instances, the landlord may prefer to keep the security improvements made by UNDP in the premises. In such circumstances, the requirement is not probable and no liability is recognized in the financial statements.]

* 1. A reliable estimate can be made of the amount of the requirement. [A reliable estimate is always available.]

1. UNDP Standard Lease Agreement contains an Article that limits its exposure to decommissioning. Article 17(c) *states: “Where, with the prior written consent of the Landlord, major alterations, renovations or additions are made on the demised Premises, UNDP shall not be under any obligation to restore the demised Premises to the state and conditions existing prior to entering upon the same under this Agreement. Such consent shall be set forth in writing and shall contain provisions on the amortization or compensation of the expenses either through offsetting the expenses against rental payments, or payment for their fair market value.*”

1. Disposal and/or Write-Off of assets will need to be reviewed by the relevant committees and approved by the relevant Approving Officers in accordance with the delegation of authority (refer to the POPP section on Furniture and Equipment); and with the Internal Control Framework sections governing authorization levels and segregation of duties.

## Accounting Treatment of Decommissioning

1. If a liability is to be recognized, the accounting treatment will depend on the Lease classification:

* 1. Finance Leases: The estimated value of the decommissioning expense requirement will be added to the Finance Lease cost (Debit). The credit is a provision in the liabilities (liability and the expense will be raised.). The additional asset is depreciated over the Lease term. This entry will be carried out by GSSC at the request of the country office or HQ operating unit When UNDP has to decommission the asset, the provision is used (instead of recording an expense in the statement of financial performance);
  2. Operating Lease (not a Finance Lease): the estimated value of the requirement is recorded in full as an expense when the agreement is signed (debit), or the LHI are undertaken, and a liability is established. The credit is a provision/ liability and the expense will be raised. This expense will be budget-checked (affecting the resources available) and shared pro rata (allocated in line with space occupied) with other agencies occupying the premises. When UNDP has to decommission the asset, the provision is used (instead of recording an expense in the statement of financial performance);
  3. Actual Cost: At the point at which UNDP has to decommission the asset, the earlier established liability will be charged. If the decommissioning expense exceeds the liability amount then this excess amount will be recorded directly to Expense and affect resources. These entries will be handled by the GSSC at the request of the business unit or HQ operating unit through UNall.
  4. Budget Check: The utilization of the provision will not be budget-checked unless the expense exceeds the provision

1. Note that the UNDP standard lease agreement is an Operating Lease, and excludes UNDP from decommissioning responsibility; this, therefore, will not be a common issue but an exception.

## LHI Physical Verification Exercise

1. A physical verification (count) of LHI items must be conducted bi-annually (i.e. twice a year) or annually where applicable to ensure that the data included in the Quantum Asset Module corresponds to the items physically present.

1. The process to be followed for physically verifying LHI is similar to the process followed in the physical verification of Furniture and Equipment and follows the same steps. Refer to policy for Furniture and Equipment

41. Roles & Responsibilities

1. The Assistant Administrator/Chief Procurement Officer (CPO) of the Bureau for Management Services (BMS) is responsible for all Property, Plant and Equipment (PP&E) acquired, controlled and managed by UNDP.

1. The CPO delegates authority to acquire, control and manage the PP&E to each Resident Representative, Head of Out-Posted Headquarters’ Unit and to the Chief of the General Operations/BMS.

**Leasehold Improvements within Common Premises**

1. For the purposes of UNDP, a Leasehold Improvement within common premises is an improvement to a leased or rented shared premise with a value of USD 50,000 or more made by UNDP or on behalf of UNDP by one of the joint occupants.

1. A UN Common Premises is a building shared by two or more ExCom Agencies, even though more ExCom Agencies are present in the country. For example, UNDP may occupy a building in a country office with UNICEF, UNFPA etc. Some non-ExCom UN Agencies are also present in these common premises. The objective of these common premises is to build closer ties amongst United Nations staff and promote a more unified presence at country level in a cost effective manner**.**

# Lead Agency for Common Premises

1. For the purposes of Common Premises in UNDP, a Lead Agency is the party that acts on behalf of the other UN Agencies in dealing with the Landlord or a 3rd party with regards to the operations of the leased or rented building.

1. In order to determine the accounting treatment of leasehold improvements under common premises each of the following scenarios under which agencies jointly occupy buildings should be assessed on the basis of “ownership and control”.

1. Where the lead agency has the exclusive ownership or control over the building, it assumes all the risks by acting as the Principal Agent whilst letting the other UN Agencies use it. Consequently, the leasehold improvement would be recorded in its books as a fixed asset.

1. Where the lead agency acts on behalf of all the UN Agencies, all the participating agencies bear the risks in proportion to their share of occupancy. In this case, the leasehold improvement will be recorded in each agency’s books in proportion to the amount contributed which will be based on their share of occupancy.

## ACCOUNTING TREATMENT OF LEASEHOLD IMPROVEMENTS UNDER COMMON PREMISES

|  |  |  |
| --- | --- | --- |
| **Scenarios** | **Type of Arrangement** | **Accounting Treatment** |
| **1.**  **Purchased or Constructed Building** | 1a. Constructed of Purchased exclusively by Lead Agency | 1a.  Record LHI as a Fixed Asset in the books of the Lead Agency |
| 1b. Joint Construction or Purchase by all UN Agencies | 1b. Record LHI as a Fixed Asset in each Agencies' books based on amount contributed |
| **2. Commercial Operating Lease** | 2a. The Lead Agency acts as Principal and bears all the risks of the Lease | 2a.  Record LHI as a Fixed Asset in the books of the Lead Agency |
| 2b.  The Lead Agency acts as an Agent on behalf of all the UN Agencies | 2b. Record LHI as a Fixed Asset in each Agencies' books based on amount contributed |
| **3.**  **Donated Right to Use Building** | 3a.  Building donated exclusively to the Lead Agency to use | 3a.  Record LHI as a Fixed Asset in the books of the Lead Agency |
| 3b.  Building donated to the UN System to use | 3b. Record LHI as a Fixed Asset in each Agencies' books based on amount contributed |
| **4.**  **Donated Premises** | 4a.  Given exclusively to the Lead Agency | 4a.  Record LHI as a Fixed Asset in the books of the Lead Agency |
| 4b.  Given to the UN System | 4b. Record LHI as a Fixed Asset in each Agencies' books based on amount contributed |