



Department
of Health &
Social Care

Department of Health and Social Care

Draft Group Accounting Manual 2023 to 2024

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Summary of Changes

For ease of reference, the key changes in this document compared to the Department of Health and Social Care Group Accounting Manual 2022-23 (GAM 2022-23) are set out below. The comparisons are to the final published document.

	Area of Change	GAM 2023-24	GAM 2022-23
1	Removal of references to CCGs	throughout	throughout
2	Inclusion of IFRS 16 measurement principles to PFI liabilities	4.245 to 4.249 and Chapter 4 Annex 5 and Chapter 5 Annex 1	

1. Introduction

- 1.1 The Department of Health and Social Care (DHSC) and bodies within the DHSC accounting boundary have a statutory requirement to produce an annual report and accounts (ARA) following the end of the financial year.
- 1.2 Additionally, DHSC must produce a [consolidation of accounts](#) data for the bodies within the accounting boundary. This Group Accounting Manual (GAM) is DHSC's guidance and instruction to these bodies on preparing and publishing an ARA.

Purpose and Applicability of the Manual

- 1.3 DHSC group bodies are required to prepare accounts in accordance with International Financial Reporting Standards (IFRS) as adopted in HM Treasury's ['Financial Reporting Manual' \(FReM\)](#), subject to any agreed divergences for the DHSC group, or through subordination to the Companies Act 2006.
- 1.4 The GAM incorporates the requirements of the FReM for DHSC group bodies, interprets them as appropriate, and provides additional guidance and context relevant to the NHS.
- 1.5 DHSC group bodies must comply with the requirements of the GAM, and in so doing can expect to achieve compliance with the FReM.
- 1.6 The GAM is not an accounting textbook and does not set out to explain standard accounting principles.
- 1.7 DHSC group bodies must ensure they are sufficiently familiar with IFRS Standards to achieve the necessary compliance. The GAM provides guidance on the applicability of these standards.

Format of the Manual

- 1.8 The subsequent chapters in this manual are arranged as follows:
 - [Chapter 2](#) provides information on the framework under which the ARA must be completed
 - [Chapter 3](#) covers the form and content of the annual report
 - [Chapter 4](#) covers accounting principles, including application of standards, HM Treasury interpretations and adaptations and specific accounting policies

- [Chapter 5](#) covers the form and content of the financial statements and accompanying disclosures.
- 1.9 The GAM thematically addresses the application of standards. For example IFRS 9 is referenced in;
- Chapter 4 regarding [accounting for assets and liabilities](#),
 - [Chapter 4 Annex 1](#) in which the public sector adaptations and interpretations are replicated,
 - [Chapter 4 Annex 6](#) in which additional guidance is provided on financial instruments accounting under IFRS 9, and,
 - [Chapter 5 Annex 1](#) in the example accounting policy note.
- 1.10 Cross references and hyperlinks are employed to ensure users can quickly locate the guidance for specific standards throughout the GAM.
- 1.11 Annexes are used in this manual to provide further specific background information on the requirements.
- 1.12 Annexes provide useful additional information on more complex issues for those that require it, away from the main manual. These can be found after the chapter they relate to (for example, the application of asset valuation methods is explained in [Chapter 4 Annex 4 Valuation Issues](#)).
- 1.13 Additional appendices are included within this manual to supplement the core guidance where there are additional sector specific reporting requirements.
- 1.14 Appendices form an integral part of the manual and are organised to assist in locating entity specific guidance (for example, the ICB corporate governance reporting requirements are presented in the two [ICB appendices to Chapter 3](#)).

Scope and Definitions

- 1.15 This manual applies to entities designated for consolidation within the accounting boundary of the Department of Health and Social Care. These entities must follow its requirements in preparing their ARA. Where parts of this guidance are relevant to specific entities and sectors within the group, this is clearly indicated.
- 1.16 For annual reporting requirements only, NHS foundation trusts must follow the separate NHS Foundation Trust Annual Reporting Manual 2023-24 (FT ARM 2023-24).

- 1.17 NHS charities must follow the [Charities Statement of Recommended Practice \(SORP\) FRS 102](#). The requirements of this manual only apply to the results of NHS charities where they are consolidated within the accounts of a parent NHS provider.
- 1.18 For the purposes of this manual, references to entities that follow this manual are defined as follows:
- Department of Health and Social Care – The core Department of Health and Social Care, excluding all other group bodies,
 - NHS trusts, as established under [Section 25 of the National Health Service Act 2006](#),
 - NHS foundation trusts, as established under [Section 35 of the National Health Service Act 2006](#),
 - NHS providers – All NHS trusts and NHS foundation trusts,
 - Integrated Care Boards (ICBs) as established under as established under [Section 14Z25 of the National Health Service Act 2006](#)
 - NHS England – (including Commissioning Support Units), which is also an NDPB,
 - NHS commissioners – NHS England and ICBs,
 - NHS bodies – All NHS providers and ICBs,
 - NHS charities – Charitable entities within the DHSC accounting boundary, either those consolidated by parent NHS providers or independent charities consolidated directly by DHSC,
 - DHSC agencies – Executive agencies within the DHSC accounting boundary (currently only UK Health Security Authority (UKHSA) and Medicines and Healthcare products Regulatory Agency (MHRA))
 - Special health authorities – Entities within the DHSC accounting boundary established as special health authorities,
 - DHSC NDPBs – Non-departmental public bodies within the DHSC accounting boundary. This includes NHS England unless stated otherwise,
 - Other DHSC bodies – Other bodies designated for consolidation within the DHSC accounting boundary, including limited companies,
 - DHSC ALBs – Arm’s length bodies within the DHSC accounting boundary, comprising;

- DHSC agencies,
- special health authorities,
- DHSC NDPBs and
- other DHSC bodies.
- This includes NHS England, unless stated otherwise (Note that the FReM uses a different definition of arm's length bodies, which includes all bodies within a departmental group except the core department and executive agencies)
- DHSC group bodies – All entities designated for consolidation within the DHSC accounting boundary.

2. Financial reporting framework

2.1 This chapter sets out the framework of legislation, regulations and guidance under which DHSC group bodies prepare their annual reports and accounts and are held accountable for their financial performance.

Legislative Framework

Government Resources and Accounts Act 2000

2.2 The departmental accounting group is defined in law by Designation Orders made under [the Government Resources and Accounts Act 2000](#) (GRAA).

2.3 The GRAA requires DHSC group bodies to:

- prepare such financial information in relation to the year as HM Treasury may request
- present the information in such form as HM Treasury may direct
- arrange for the information to be audited, and
- deliver the information to HM Treasury, in such manner and by such date in the next year as HM Treasury may direct.

NHS foundation trusts

2.4 The requirements for NHS foundation trusts are set out in paragraphs 24 and 25 of [Schedule 7 to the National Health Service Act 2006](#) (the '2006 Act').

2.5 There are three main statutory requirements for an NHS foundation trust in relation to its accounts:

- to keep proper accounts and proper records in such form as the regulator may, with the approval of the Secretary of State, direct
- to prepare in respect of each financial year annual accounts in such form as the regulator may, with the approval of the Secretary of State, direct, and
- to comply with any directions given by the regulator, with the approval of the Secretary of State, as to:

- the methods and principles according to which the accounts are to be prepared and
- the content and form to be given in the accounts.

2.6 NHSE issues these directions as part of the FT ARM.

2.7 As guided in the directions, the GAM is directly applicable to NHS foundation trusts, except for guidance set out in [Chapter 3](#). Annual reporting guidance will continue to be published alongside the accounts direction in the FT ARM.

Companies Act 2006 requirements

2.8 Although the use of IFRS means that the main generally accepted accounting practice (GAAP) requirements of the Companies Act 2006 do not apply to the DHSC group, there are nevertheless some disclosure requirements that remain applicable as listed in [Chapter 2 Annex 1 Companies Act 2006 requirements](#).

2.9 This does not remove requirements per the Companies Act 2006 in relation to individual entity statutory accounts where applicable, such as for limited companies.

Accounting Framework

2.10 To present a true and fair view, the accounts of the DHSC group must comply with IFRS, as adopted by the FReM, unless directed otherwise.

2.11 As the FReM, like the GAM is not an accounting textbook, a key source of guidance will be the accounting standards and supplementary guidance, published by the International Accounting Standards Board.

Generally accepted accounting practice (GAAP)

2.12 This manual follows GAAP to the extent that it is meaningful and appropriate to the DHSC group. GAAP consists of:

- the accounting and disclosure requirements of the Companies Act 2006, and
- pronouncements by or endorsed by the International Accounting Standards Board (IASB) including the Conceptual Framework for Financial Reporting, IFRS Standards and Interpretations,

- interpreted as necessary by the body of accumulated knowledge built up over time and promulgated in, for example, textbooks, technical journals and research papers.

2.13 Where no relevant IFRS guidance exists, reference may be made to other appropriate accounting standards, such as UK GAAP, to the extent that these do not conflict with the requirements of IFRS Standards and Interpretations dealing with similar issues and the Conceptual Framework for Financial Reporting. See also [Chapter 2 Annex 2: Other Relevant Accounting Pronouncements](#) and paragraph 2.16.

International Financial Reporting Standards (IFRS)

2.14 The IASB Conceptual Framework for Financial Reporting sets out the principles that should underlie general purpose financial statements, the objective of which is to provide information about the financial position, performance and changes in financial position.

2.15 Presentation should meet the ‘common needs of most users’.

2.16 This manual follows IFRS, as adopted by the UK, to the extent that it is relevant and appropriate to the DHSC Group:

- IFRS Standards issued by the International Accounting Standards Board (IASB)
- International Accounting Standards (IASs) issued by the predecessor International Accounting Standards Committee (IASC) and subsequently adopted by the IASB
- Interpretations issued by the IFRS Interpretations Committee (IFRS IC, previously IFRIC)
- Interpretations issued by the predecessor Standing Interpretations Committee (SIC) and subsequently adopted by IFRIC
- the Conceptual Framework for Financial Reporting issued by the IASB.

UK-adopted IFRS

2.17 Listed companies that prepare group accounts are required to do so in accordance with IFRS as adopted by the UK rather than IFRS as published by the IASB.

2.18 The adoption process sometimes creates a delay between the IASB or IFRS IC issuing a pronouncement and its subsequent UK adoption, during which time companies cannot early-adopt the new, or amended, requirements.

- 2.19 HM Treasury's approach in the FReM is to apply UK-adopted IFRS with some adaptations and interpretations.
- 2.20 DHSC group bodies must apply IFRS as adopted by HM Treasury in the FReM (see [Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group](#)), except where additional departures and interpretations have been agreed by DHSC (see [Chapter 4 Annex 3: Departures from the FReM](#)).

Government Financial Reporting Manual (FReM)

- 2.21 The 2023-24 GAM has been drafted to meet the requirements of the [2023-24 FReM](#).
- 2.22 The FReM is HM Treasury's technical accounting and annual report guidance for the preparation of public sector accounts (including, but not limited to, central government departments, executive agencies and arm's length bodies).
- 2.23 The FReM follows IFRS and Companies Act requirements.
- 2.24 In several important areas, the FReM provides interpretation and adaptation of IFRS Standards to better meet Government's reporting requirements.
- 2.25 The FReM also details additional disclosures for the public sector.
- 2.26 DHSC arm's length bodies (ALBs) should additionally refer to the relevant illustrative accounts, provided by HM Treasury in supplement to the FReM, to ensure the ARA is presented in the correct format (see paragraph 5.21).

Group Accounting Manual (GAM)

- 2.27 The GAM is a further interpretation of the FReM, providing technical guidance to DHSC group bodies that specifically addresses their requirements.
- 2.28 The GAM is compliant with the FReM, other than for specifically agreed divergences (see [Chapter 4 Annex 3: Departures from the FReM](#)).
- 2.29 It is expected that those preparing ARAs will consult the GAM alongside the relevant accounting standards, and thereby comply with the FReM.
- 2.30 The GAM is not an accounting textbook and does not repeat IFRS requirements where these can be applied without specific interpretation or adaptation for the DHSC group.

2.31 The GAM:

- forms part of accounts directions issued to reporting bodies
- mandates particular accounting treatments where standards permit a choice, to ensure consistency within the DHSC group
- draws attention to interpretations and adaptations of IFRS Standards set out in the FReM, usually repeating the required departures from IFRS Standards
- highlights specific departures from the FReM, as agreed with Treasury, applicable to the users of this manual
- specifies scope, contents and layout of the ARA, to ensure that these documents meet HM Treasury expectations and provide consistent data for national summaries and consolidations, and
- provides detailed accounting guidance in complex and technical areas (for instance, Private Finance Initiative (PFI) and group reconstruction) where IFRS requirements need consistent application in the NHS context.

2.32 This manual will be supplemented, as necessary, by numbered 'frequently asked questions' (FAQ) updates over the course of the year.

2.33 These updates will be posted to the Department of Health and Social Care group accounting manual area of '.gov.uk'. All content issued in this way will have the same status as guidance issued in this manual. Users should check the [Department of Health and Social Care group accounting guidance area](#) regularly for new guidance.

Financial Reporting Advisory Board (FRAB)

2.34 The [Financial Reporting Advisory Board](#) provides independent accounting advice in respect of public sector bodies to HM Treasury.

2.35 Approval is sought from FRAB on changes made to the FReM and to the DHSC group manuals (GAM and FT ARM) before they are published. FRAB also approves departmental divergences from the FReM.

Group and Consolidated Accounts

2.36 The financial reporting requirements for the DHSC group are determined by the Department of Health and Social Care with the approval of HM Treasury.

- 2.37 DHSC has a role as the relevant authority for agreeing the reporting requirements for the group, and therefore any concerns about the content of this manual should be raised with DHSC or the relevant national body, rather than directly with HM Treasury.
- 2.38 As a relevant authority, the Department of Health and Social Care has the power to set the accounts direction for DHSC group bodies (with some exceptions, as explained below).
- 2.39 These directions require compliance with this manual, which provides specific guidance on how DHSC group bodies should prepare their accounts.
- 2.40 Full details of accounts directions issued within the group are set out in [Chapter 2 Annex 3 - Accounts Directions \(structure\)](#). The text of the accounts direction for NHS trusts is included in [Chapter 2 Annex 4 - NHS Trust Accounts Directions](#).

DHSC group account

- 2.41 DHSC is responsible for the preparation of a group account.
- 2.42 Whereas an entity's accounting boundary is normally determined by control criteria, such as those set out in IFRS 10, Consolidated Financial Statements, government departments' boundaries are determined by the classification of entities to the public sector and subsequent allocation to a parent department. This process is known as designation.
- 2.43 Entities are classified by the national accounts classification criteria set out by the Office for National Statistics (ONS).
- 2.44 This classification process determines whether an entity is considered part of the public sector and what type of body it is (for example, central government or local government).
- 2.45 Most entities classified to central government will be allocated to a parent department. This process is carried out by ONS, with input from HM Treasury, based on the nature and role of the entity in question.
- 2.46 All entities allocated to a department, with some exceptions (for instance, trading funds and public corporations), are considered to fall within its accounting boundary.
- 2.47 The parent department consolidates these entities as though they are wholly owned subsidiaries, regardless of how they would be treated under IFRS 10 and related standards.

- 2.48 New entities and joint ventures are continually being developed to deliver healthcare services. These new entities will need to be assessed to determine whether they are DHSC group bodies and should therefore be consolidated.
- 2.49 Any organisation is likely to be designated for consolidation where it is jointly owned or majority owned by organisations within the DHSC accounting boundary (determined by adding together the levels of ownership of all DHSC group bodies) and where it delivers healthcare services through NHS contracts.
- 2.50 Organisations are also likely to be designated for consolidation where the risks and rewards of the organisation are held by the DHSC/NHS collectively or other factors of control are met, as set out in the [Manual on Government Deficit and Debt](#).
- 2.51 Determining factors include appointment of officers, determination by government of functions, objectives and operating provisions, contractual arrangements, degree of financing, and risk exposure.
- 2.52 DHSC group bodies that control any new entities (and any JVs not officially designated) must raise these with NHSE or DHSC initially, and may need to complete the HMT designation questionnaire as part of the classification process.
- 2.53 The list of designated entities is confirmed each year in a Designation Order. The current Order is SI 2022 No. 1319, [The Government Resources and Accounts Act 2000 \(Estimates and Accounts\) \(Amendment\) Order 2022](#). Amendments to this order will be made in 2023.
- 2.54 The DHSC group account is prepared directly in accordance with the FReM. The department's accounting policies are consistent with the principles of the GAM.

NHS England group account

- 2.55 In accordance with the Health and Social Care Act 2012, NHS England is required to prepare a group account consolidating the accounts of Integrated Care Boards (ICBs).
- 2.56 NHSE is also required to issue accounts directions to ICBs in respect of their ARA. As the accounts directions require compliance with the 2023-24 GAM, the content of this manual is applicable to ICBs and NHSE.

NHS trusts, foundation trusts and consolidated provider account

- 2.57 NHSE will prepare a consolidated account for all NHS providers. It follows that financial returns submitted by NHS trusts and NHS foundation trusts to NHSE, and

the submission of FT and provider consolidated financial data by NHSE to DHSC, must be prepared in accordance with accounting policies set out in this manual.

Summarisation schedules

- 2.58 Summarisation schedules are the method of collecting accounts data by DHSC and NHSE for accounts consolidation purposes.
- 2.59 The summarisation schedules are provided by these bodies in a set format to ensure all data required for the accounts is collected. The collections allow the sector sub-consolidations and the DHSC group consolidation to be completed.
- 2.60 The content within the summarisation schedules must be compliant with this manual and be consistent with the entity's own ARA. The term "summarisation schedule" will refer to all of the following, unless otherwise stated:
- The Department of Health and Social Care Accounts Consolidation Schedule for DHSC ALBs
 - The TAC schedules incorporated into the provider finance in year monitoring return (PFR) issued by NHSE
 - NHSE ICB_CSU template.
- 2.61 While discretion applies in the format of the published ARA based on the application of materiality, DHSC group bodies must complete the whole of the summarisation schedule.
- 2.62 While balances may not be material at an entity level, the totals may aggregate across the sector/group to a material level that DHSC or the relevant national body would need to disclose on consolidation.
- 2.63 There are other data requests in the schedules which provide additional assurance on the accounts, such as agreement of balances data, or for other purposes, such as management information or Whole of Government Accounts completion.
- 2.64 Before submission to DHSC or the relevant national body, it is important for any validation issues to be cleared. This helps to provide assurance for the consistency of data submitted to the relevant national body, and for the entity's annual accounts.
- 2.65 Entities may also be required to provide their audited annual accounts to the relevant national body or DHSC for consistency checking.

2.66 Completion guidance and submission timetables will be released towards the end of 2023.

Budgeting Framework

2.67 The majority of financing for the NHS derives ultimately from Parliamentary funding issued to DHSC by means of the Estimate process.

2.68 DHSC is accountable to Parliament for these funds and subject to budgetary control by HM Treasury.

2.69 HMT sets separate budgets for Resource and Capital, covering in year income and expenditure requirements and funding for investment. Additionally, these budgets are analysed into:

- Departmental Expenditure Limits (DEL)
- Annually Managed Expenditure (AME).

2.70 The financial performance of DHSC group bodies forms part of the consolidated budget outturn reported by DHSC.

2.71 Group bodies must therefore provide information at a sufficiently detailed level to enable the budgetary treatment to be identified. Completion of the summarisation schedules ensures this.

2.72 The budgetary regime is aligned to National Accounts, which report on the UK economy.

2.73 These are based on the national frameworks and guidance which differ from IFRS in several areas, and therefore there are misalignments between budgets and financial accounts.

2.74 Additional information may be required to calculate the necessary adjustments to budget outturn. Examples are set out in the following paragraphs.

2.75 Public Private Partnerships (PPPs) – These are generally accounted for as service concession arrangements under IFRS, resulting in recognition of an asset that is subsequently measured under IAS 16 and a corresponding liability that is measured under IFRS 16. Different criteria apply under national frameworks and guidance to determine whether an arrangement should be reported ‘on-balance sheet’, and many PPPs will be ‘off-balance sheet’ for the purposes of HMT budgetary controls. Where this is the case, information on the treatment under national frameworks and guidance will be required to establish the necessary

adjustment to budget outturn. This is described in more detail in [Chapter 4 Annex 5: Accounting requirements for PFI/LIFT schemes](#).

- 2.76 Capital grants – Grants paid to external bodies are treated as revenue expenditure in financial accounts. However, where these grants finance investment, they are required to score against Capital for the purposes of HMT budgetary controls. Any expenditure identified in summarisation schedules as capital grants is automatically reclassified to Capital for budgetary purposes.
- 2.77 Research and development – Most research and development expenditure cannot be capitalised under IFRS. However, all such expenditure, including staff costs, scores against Capital for the purposes of HMT budgetary controls. DHSC has agreed with HMT that, to avoid double counting where DHSC commissions research from its arm's length bodies, the group expenditure on research and development for budgetary purposes will be based on spend in core DHSC only. DHSC ALBs and NHS bodies will therefore be unaffected and will report research and development as revenue spend, except where IFRS permits capitalisation of an asset.
- 2.78 IFRS 16 Leases - While the guiding principle within HM Treasury's [IFRS 16 supplementary budgeting guidance](#) is for the budgeting approach to follow the accounting treatment for IFRS 16 and, where relevant, to follow the current approaches laid out in the [Consolidated budgeting Guidance](#) (CBG), preparers should note:
- An entity will incur a CDEL charge equal to the right of use asset value recognised in the entity's accounts at the commencement of a lease in 2022-23 and beyond, for arrangements that are not subject to the low value and short-term expedients offered in the Standard.
 - Existing lease arrangements that establish a right of use asset value on transition to IFRS 16 do not generate a corresponding CDEL charge. There is however an RDEL impact for existing lease arrangements transitioned to IFRS 16 due to the interest and depreciation charges incurred for both transitioning and newly commencing leases.
 - Lease modification or remeasurement / re-assessment of a lease liability will have a CDEL impact. Post transition, existing arrangements can have a CDEL impact. HM Treasury's budgeting guidance identifies the scenarios in which arrangements create a CDEL impact throughout the term of an arrangement.
 - Peppercorn leases are treated akin to donated assets.
 - Revaluation, impairment and entries for a barter transaction will continue to be applied per standing guidance in HM Treasury's CBG.

Other Framework Issues

Accounts submission

- 2.79 A detailed accounts submission process, showing deadlines and procedures for handling statutory accounts and summarisation schedules will be provided by the relevant national bodies later in the year.
- 2.80 Treasury 'Public Expenditure System' (PES) papers give detailed guidance for laying ARAs in Parliament. These papers apply primarily to government departments.
- 2.81 Where relevant to entities that follow the GAM, PES requirements have been incorporated into the GAM or will be included in this manual's FAQs.
- 2.82 Guidance for DHSC group bodies on the process for laying ARAs in Parliament is included in [Chapter 2 Annex 5 - Laying annual report and accounts before Parliament](#).

General Data Protection Regulation (GDPR)

- 2.83 The provision of advanced notification to individuals affected, by an entity's intent to disclose personal information in the remuneration report section of the annual report, is covered in [Chapter 3](#) of the GAM.
- 2.84 Group bodies should also consider whether any other personal information contained within the annual report and accounts should be subject to the GDPR considerations that are set out in paragraphs 3.82 and 3.84.

Other guidance

- 2.85 Many of the following items will be made available subsequent to the GAM being issued. These do not form part of the manual, but form part of a wider body of guidance:
- NHSE issues Monthly Financial Monitoring Guidance for NHS providers to facilitate the completion of the monthly monitoring returns, with further detail on the Trust Account Consolidation (TAC) schedules at months 9 and 12. Where detailed accounting guidance is required, NHS providers must follow this manual, to ensure consistency of reporting through the year.
 - NHSE will issue accounts templates for NHS providers at Q4 which are optional for use and do not form part of its accounts direction to NHS foundation trusts and

do not form part of the GAM (see paragraphs 5.17 to 5.24 for the full list of example accounts).

- NHSE issues a model accounts template for ICBs use of which is optional and does not form part of its accounts direction and does not form part of the GAM.
 - Additional guidance for ICBs is issued by NHSE on their SharePoint site.
 - For Month 9: Detailed completion guidance for DHSC summarisation schedules is also provided alongside the quarterly monitoring guidance.
 - Guidance on agreement of balances exercises, issued by DHSC.
 - HM Treasury's [Managing Public Money \(MPM\)](#), which applies to all DHSC group bodies. DHSC Group bodies must therefore ensure they are sufficiently aware of MPM requirements. Entities should note;
 - MPM adherence includes, but is not limited to, following MPM requirements around obtaining prospective HM Treasury approvals for;
 - novel, contentious or repercussive expenditure - including certain losses or special payments such as special severance payments,
 - novel, contentious or repercussive commitments - such as certain contingent liabilities,
 - spend outside the Department's delegated limits or authorities - such as the giving of gifts.
 - Expenditure and commitments entered into without HM Treasury approval, where required, is irregular.
 - Early and prospective engagement with the entities national body or DHSC sponsor to avoid issues concerning the regularity or propriety of a transaction is essential.
 - Further reference is made to the reporting and disclosure requirements for ARAs prescribed in MPM, in [Chapter 3](#) and [Chapter 5](#) of the GAM.
- 2.86 Additional requirements for ICBs are set out below in [Chapter 2: ICB Appendix 1](#).

Chapter 2 Annex 1: Companies Act 2006 Requirements

2.87 The following table lists the financial reporting requirements under the Companies Act 2006, and how they are applicable to the accounts of departmental group bodies.

CA2006 Reference	Regulations Reference	Description
	per SI 2008 No.410, The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008	
Section 409	Regulation 7 and Schedule 4	Information about related undertakings in a note to the accounts.
Section 410A per SI 2008 No.393, The Companies Act 2006 (Accounts and Reports) (Amendment) Regulations 2008		Information about off-SoFP arrangements in a note to the accounts.
Section 411		Information about employee numbers and costs in a note to the accounts. For DHSC group bodies, staff numbers and costs are included in the staff report within the annual report.
Section 412 (1) to (5)	Regulation 8 and Schedule 5	Not required by the FReM, as these requirements are considered to be met by the preparation of a remuneration report as part of the annual report.
Section 413		NHS foundation trusts only: Information about directors' benefits: advances, credit and guarantees, in a note to the accounts.
Sections: 414A(1),(3) and (4); 414C and 414D(1);		Strategic Report These requirements are adapted into the Performance Report: see chapter 3 (for bodies

CA2006 Reference	Regulations Reference	Description
as modified / inserted by SI 2013 No.1970, The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013	per SI 2008 No.410, The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008	other than NHS foundation trusts).
Sections: 415(1) to (3) 416; As modified / inserted by SI 2013 No.1970, The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013; 418(1) to (4); and 419(1).	Regulation 10 and Schedule 7	Directors' report These requirements are adapted for the public sector: see chapter 3 (for bodies other than NHS foundation trusts).
Sections: 420(1); 421(1) to (2); and 422(1).	Regulation 11 and Schedule 8	Quoted Companies: Directors' Remuneration Report Section 497 which requires auditors to report on elements of the directors' remuneration report in the audit opinion is applicable. These requirements are adapted for the public sector: see chapter 3 (for bodies other than NHS foundation trusts).
Sections 426 and 426A as modified / inserted by SI 2013 No.1970, The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013		Contents of strategic report with supplementary material. (applicable only if the entity chooses to prepare an additional performance overview report with supplementary material).

Chapter 2 Annex 2: Other Relevant Accounting Pronouncements

2.88 Certain types of transactions, for which there are no relevant requirements under IFRS, must be accounted for using the appropriate UK GAAP requirements. These transactions are set out in the following table:

Transactions not covered by IFRS requirements	Accounting requirements to be applied	FReM reference
Accounting for value added tax (VAT).	FRS 102 paragraph 29.20	None
Accounting for Heritage Assets	FRS 102 paragraphs 34.49 to 34.35	10.1.31 to 10.1.48

Chapter 2 Annex 3 - Accounts Directions (structure)

2.89 The following table summarises how accounts directions are issued to various bodies within the DHSC group:

Entity	Determination by:	Legislation Accounts Direction made under:	Approved by:
Department of Health and Social Care (own accounts and group consolidation)	HM Treasury	Government Accounts and Resources Act 2000, s. 5: Resource Accounts Preparation and s. 7 Other Departmental Accounts	HM Treasury
NHS England (including commissioning sector sub-consolidation)	DHSC (Secretary of State) (SofS)	Health and Social Care Act 2012 c. 7 Schedule 1 s.16: Annual Accounts	HM Treasury
NHS trusts	DHSC SofS	NHS trust accounts National Health Service Act 2006 c. 41 paragraph 11A of schedule 4 and section 273(1)	HM Treasury
NHS foundation trusts	NHSE	Paragraph 24 of Schedule 7 to the National Health Service Act 2006 amended Health and Social Care Act 2012 c. 7 part 4: Governance and management Section 154	Department of Health and Social Care (SofS)
ICBs	NHSE	ICB Directions Section 14Z25 of the National Health Service Act 2006 inserted by Section 19(2) of the Health and Care Act 2022	Department of Health and Social Care (SofS)
DHSC ALBs	DHSC SofS		HM Treasury

Chapter 2 Annex 4 - NHS Trust Accounts Directions

- 2.90 DHSC has issued accounts directions to all NHS trusts, in accordance with schedule 15 paragraph 3(1) of the National Health Service Act 2006. The text of this direction is set out below.
- 2.91 Note the presentation reflects that these directions are incorporated into the middle of a guidance document.

NATIONAL HEALTH SERVICE ACT 2006

DIRECTIONS GIVEN BY THE SECRETARY OF STATE IN RESPECT OF NATIONAL HEALTH SERVICE TRUSTS' ACCOUNTS

The Secretary of State for Health and Social Care, with the approval of the Treasury, in exercise of powers conferred on him by paragraph 11A of Schedule 4 to, and section 273(1) of the National Health Service Act 2006 gives the following Directions:

Commencement and interpretation

- (1) These Directions are given to NHS trusts and come into force on the 1 July 2022.
- (2) In these Directions:
"the Accounts" means the accounts of an NHS trust for a given financial year¹;
"NHS trust" means an NHS trust established under section 25 of the National Health Service;
"the trust" means the NHS trust in question.

Form of Accounts, including statement of directors' responsibilities

- (1) NHS trusts are directed as follows.
- (2) The Accounts submitted under paragraph 11A of Schedule 4 to the National Health Service Act 2006 must show, and give a true and fair view of, the trust's gains and losses, cash flows and financial state at the end of the financial year.
- (3) The Accounts must meet the accounting requirements of the Department of Health and Social Care Group Accounting Manual ("the Manual") as it applies for the relevant financial year, as agreed with the Treasury.
- (4) Where the Manual requires a statement of directors' responsibilities in respect of the Accounts, this must be signed and dated by the Chief Executive and Finance Director of the trust.

Revocation of 2018 Directions

¹ "financial year" is defined in section 275 of the National Health Service Act 2006 (c. 41) as "a period of 12 months ending with 31st March in any year".

3. The Directions entitled “Directions by the Secretary of State in Respect of National Health Service Trusts’ Accounts”, signed on 23rd March 2018, are revoked.

Signed by the authority of the Secretary of State for Health and Social Care

.....
by **Jennifer Nichols**,
a member of the Senior Civil Service, Department of Health and Social Care, Quarry
House, Leeds LS2 7UE.
Dated 23rd June 2022

Chapter 2 Annex 5 - Laying annual report and accounts before Parliament

2.92 This guidance applies to DHSC group bodies required to lay their annual report and accounts (ARA) before Parliament. This includes;

- NHS foundation trusts,
- DHSC agencies,
- special health authorities,
- DHSC non-departmental public bodies (NDPBs) and the core department,

2.93 This therefore does not include;

- NHS trusts,
- Integrated Care Boards (ICBs),
- consolidated limited companies or
- NHS charities.

Statutory requirement

2.94 Entities falling within the sectors referred to above are required to lay their ARA, with any report of the auditor on them, before Parliament.

2.95 Guidance on the form and content of the annual report is included in Chapter 3 of this manual (except for NHS foundation trusts).

2.96 For NHS foundation trusts, the FT ARM 2023-24 sets out the format of a foundation trust annual report.

2.97 NHS foundation trusts must make themselves familiar with updated or revised guidance offered in the FT ARM each financial year.

2.98 The ARA laid before Parliament must include the full statutory accounts, not summarised information, and must be one document.

- 2.99 Once laid before Parliament the content of the ARA cannot be changed. If preparing a "glossy" annual report and accounts, this must be the final version, including all graphics.
- 2.100 Entities have the discretion, after laying the document before Parliament, to publish a condensed performance report with supplementary material in lieu of local publication of the full ARA.
- 2.101 Further guidance on supplementary material can be found in paragraphs 3.136 to 3.140 of this manual (or in the FT ARM 2023-24, as applicable).
- 2.102 Until the ARA has been laid before Parliament, nothing can be published. Any online version must be identical to the printed version.

The process of laying papers before Parliament

- 2.103 Entities must follow the guidance for laying papers in the House of Commons Journal Office document [Guide to laying papers \(August 2017\)](#). Note that this guidance is updated regularly.
- 2.104 Note also that the Journal Office guidance is aimed at government departments as well as organisations such as NHS bodies.
- 2.105 The physical act of laying the report before Parliament can only be undertaken by the Department of Health and Social Care Parliamentary Clerk, who will also arrange for laying letters to be prepared.
- 2.106 More detailed guidance for DHSC group bodies on the requirements for laying ARAs is available on the [DHSC accounting guidance website](#).
- 2.107 The submitted ARA will be bound together in a series of reports by the House authorities and will be stored in perpetuity.
- 2.108 It is therefore very important that reports are produced in the correct format for laying in Parliament.
- 2.109 Reports that are not in the correct format will not be accepted for laying and the entity may be required to undertake re-printing.

Deadlines for laying documents before Parliament

- 2.110 All ARAs must be sent to arrive at the Parliamentary Relations Unit to allow sufficient time for laying before the Parliamentary summer recess.

- 2.111 The timetable for submission will be confirmed at a later date. For FTs the timetable for submission will be part of the accounts timetable issued by NHSE.
- 2.112 ARAs will be welcomed for laying before the submission date. It is the responsibility of the entity to ensure its ARA is laid.
- 2.113 Laying reports in good time before the Parliamentary recess ensures that there is an opportunity for appropriate Parliamentary scrutiny.

Chapter 2 Annex 6 - ICB and NHS Trusts Auditor's Annual Reports

- 2.114 The Code of Audit Practice places a requirement on all ICB and NHS Trust auditors to issue an annual report.
- 2.115 The auditor's annual report is intended to be a public document, and ICBs and NHS Trusts must ensure the document is made available to members of the public free of charge.
- 2.116 The auditor's annual report is separate and distinct from the ISA 260 in which the auditor reports to those charged with governance, for which there is no requirement to make publicly available.
- 2.117 DHSC expects publication on the individual ICB / NHS Trust website to be the easiest way to ensure the auditor's annual report is made available.
- 2.118 The report should not be made available prior to publication of the entity's Annual Reports and Accounts.

3. Form and content of the Annual Report

3.1 This chapter is relevant to all DHSC group bodies except NHS foundation trusts, who must instead refer to the 2023-24 FT ARM.

Introduction

3.2 DHSC group bodies are required to publish, as a single document, a three-part annual report and accounts (ARA):

1. The Performance Report, which must include:

- an overview
- a performance analysis.

2. The Accountability Report, which must include:

- a Corporate Governance Report
- a Remuneration and Staff Report
- a Parliamentary Accountability and Audit Report.

3. The Financial Statements

3.3 The structure of the ARA adopted here is the one described in the FReM. DHSC group bodies may omit headings or sections where they consider that these are not relevant, but the structure of the three-part ARA outlined in this manual must be adhered to.

3.4 The structure on an ARA is illustrated in [Chapter 3 Annex 1 – Annual Report and Accounts Outline Structure](#).

General Principles

3.5 This guidance sets out the minimum content of the ARA.

3.6 Beyond this however, the entity must take ownership of the document and ensure that additional information is included where necessary to reflect the position of the

body within the community and give sufficient information to meet the requirements of public accountability.

- 3.7 Where a DHSC group body has changed status in year, the body must give additional consideration to the requirements described in paragraphs 4.404 to 4.407 and [Chapter 4 Annex 9: Reporting requirements on change of status](#).
- 3.8 Part A of the [Financial Reporting Manual \(FReM\)](#) sets out the purposes, principles and best practice in financial reporting.
- 3.9 In establishing these, the FReM makes a number of references to the Financial Reporting Council's July 2018 publication of [Guidance on the Strategic Report](#).
- 3.10 Reporting requirements expressed in the FReM and GAM apply these principles to the preparation of annual report and accounts.
- 3.11 Specific reference is made to the application of the concept of materiality to the Performance Report and Accountability Report. Unless explicitly permitted, the concept of materiality cannot be applied to disclosures required:
- By the GAM and consequently the FReM;
 - By law or by regulation;
 - Promulgated by HM Treasury through PES papers. DHSC Group bodies will receive updates regarding additional requirements through the FAQ process.
- 3.12 The use of terms such as 'to the extent necessary for an understanding of' or 'principal' identify instances in which materiality judgements can be made in relation to disclosure requirements within the Performance Report and Accountability Report.
- 3.13 Where additional information is provided per paragraph 3.5 preparers should equally ensure that the disclosure of information meets the principles and practices as detailed in the FReM in force for the appropriate financial year.

Accounting/Accountable Officer Responsibilities

- 3.14 The ARA as a whole must be fair, balanced and understandable.
- 3.15 The Accounting/Accountable Officer takes personal responsibility for it and the judgments required for determining that it is fair, balanced and understandable. NHS bodies are not required to comply with the UK Code of Corporate Governance.

- 3.16 The DHSC group body must include a Statement of Accounting/Accountable Officer's Responsibilities within the Accountability Report (see paragraph 3.53). Additionally, NHS trusts must include a Statement of Directors' Responsibilities.
- 3.17 The Accounting/Accountable Officer/Chief Executive must sign and date the following within the ARA to confirm adherence to the reporting framework:
- Performance Report (see paragraphs 3.22 to 3.38 for content)
 - Accountability Report, which incorporates the Corporate Governance Report/Statement (see paragraphs 3.50 to 3.58), the Remuneration and Staff Report (see paragraphs 3.69 to 3.124) and the Parliamentary Accountability Report (where applicable, see paragraphs 3.125 to 3.132)
 - Statement of Financial Position (see [Chapter 5](#)).

ICB Governance

- 3.18 This manual adopts FReM and Companies Act terminology in references to "Boards" and "Directors".
- 3.19 It is recognised however that ICBs have unique governance arrangements that are not fully reflected in the core Manual.
- 3.20 All references to Boards or Directors in the following chapter should, for the purposes of ICBs, be interpreted as governing bodies and governing body members.
- 3.21 Further details regarding the application to ICBs is available in [Chapter 3 ICB Appendix 1: Additional Requirements for ICBs](#), in relation to the status of ICB governing bodies, governing body members and ICB membership and members.

Performance Report

- 3.22 The purpose of the performance section of the annual report is to provide information on the entity, its main objectives and strategies and the principal risks that it faces.
- 3.23 The requirements of the performance report are based on the matters required to be dealt with in a Strategic Report as set out in Chapter 4A of Part 15 of the Companies Act 2006, as amended by SI 2013 No.1970, [The Companies Act 2006 \(Strategic Report and Directors' Report\) Regulations 2013](#).

- 3.24 Public entities must comply with the Act as adapted: i.e. they must treat themselves as if they were quoted companies.
- 3.25 The performance report is required to have two sections: a 'performance overview' and a 'performance analysis'.
- 3.26 The report must be fair, balanced and understandable. Infographics and visual aids should be used where they can enhance users understanding of the report.
- 3.27 For NHS trusts, performance of the organisation in both the overview and performance analysis should cover all aspects of performance and not only financial. This should include;
- Delivery against quality improvement priorities and performance against the most pertinent indicators for the NHS trust in the NHS Oversight Framework.
 - Linkage to disclosures on quality governance and data quality included in the accountability report.
 - Reviews stemming from the requirements Health and Care Act 2022. NHS trusts must review;
 - the extent to which it has exercised its functions in accordance with plans published under joint forward plans for ICBs and its partners,
 - the extent to which it has exercised its functions in accordance with capital resource plans for ICBs and its partners.
 - the extent to which it has exercised its functions consistently with NHSE's latest statement about how functions relating to inequalities information should be exercised.
- 3.28 For ICBs, as well as ensuring that the performance overview and analysis components of the performance report cover all aspects of performance not only financial, the performance report must;
- Explain how the ICB has discharged its general duties per sections 14Z34 to 14Z45 and 14Z49 of the Health and Care Act 2022,
 - Review the extent to which the ICB has exercised its functions in accordance with plans published under forward plans and capital resource use plans,
 - Review the extent to which the ICB has exercised its functions consistently with NHSE's latest statement about how functions relating to inequalities information should be exercised,

- Reviewing any steps the ICB has taken to implement any joint local health and wellbeing strategy it is required to have regard to
- Disclose and explain the amount and proportion of expenditure incurred by the ICB in relation to mental health, following the guidance set out below:
 - Sub-clause 4 of Clause 14Z58 of the Health and Care Act 2022 sets a requirement for ICB annual reports to include: a) a statement of the amount of expenditure incurred by the integrated care board during the financial year that relates to mental health; b) a calculation of the proportion of the expenditure incurred by the integrated care board during the financial year that related to mental health; and c) an explanation of the statement and the calculation.
 - The ICB’s statement on mental health spending should be included in the performance report. The scope of the statement is:
 - Revenue only;
 - For the purposes of the statement, mental health spend is defined as spending which is in scope of the [Mental Health Investment Standard](#) (MHIS);
 - SDF spending should not be included in ICB reports, but will be reported nationally by NHS England.
 - It is expected that M12 non-ISFE reporting against the MHIS is accurate and that it would be the basis of the ICB’s statement. If an ICB becomes aware of any problem with their M12 reporting, this should be corrected for the ICB’s statement and the ICB should notify the national team to ensure that the national statement is correct.
 - The total mental health spend as calculated above should be compared to the ICB’s total programme allocation for the year to calculate the proportion. The explanation will be straightforward for most ICBs, but provides an opportunity to explain anything unusual affecting the calculation in a given year.
 - The ICB’s statement should include a table in the form shown below, presenting the comparison between the previous year and the current year.

Financial Years	2021/22	2022/23
Mental Health Spend		
ICB Programme Allocation		
Mental Health Spend as a proportion of ICB Programme Allocation		

- Provide relevant cross references to content covered in the accountability report in regards to these requirements
- 3.29 The performance report shall be signed and dated by the Accounting/Accountable Officer/Chief Executive.
- 3.30 Auditors will review the performance report for consistency with other information in the financial statements.
- 3.31 Auditors are required to read the information in the annual report and refer to this in their audit report.
- 3.32 Therefore, the draft annual report must be submitted to the auditor to allow them sufficient time to do this prior to signing their opinion on the accounts.

Performance overview

- 3.33 The purpose of the performance overview is to give the user a short (no more than 10 to 15 pages) summary that provides them with sufficient information to understand the organisation, its purpose, the key risks to the achievement of its objectives and how it has performed during the year.
- 3.34 The overview should be enough for the lay user to have no need to look further into the rest of the ARA unless they were interested in further detail or had specific accountability or decision-making needs to be met.
- 3.35 As a minimum, the overview must include:
- A short summary explaining the purpose of the overview section
 - a statement from the chief executive providing their perspective on the performance of the organisation over the period
 - a statement of the purpose and activities of the organisation, including a brief description of the business model and environment, organisational structure, objectives and strategies.
 - a performance appraisal which provides a synopsis of the performance analysis discussed in paragraph 3.36 and an assessment of the entity's progress towards delivering its objectives. An assessment should cover;
 - whether performance has met expectation and provision of explanations where this is not the case,

- the key issues and risks that could affect the entity in delivering its objectives and affect its future performance and plans. The description of the risks should be sufficiently specific that it is easily understood why they are important,
- how the risks have been managed and how the risks have changed through the period. Significant changes should be highlighted and explained with reference to where relevant disclosures have been made elsewhere in the ARA such as the accountability report or performance report.
- an explanation of the adoption of the going concern basis (see paragraphs 4.18 to 4.27) where this might be called into doubt (expected in extremely limited circumstances).

Performance analysis

3.36 The purpose of the performance analysis is for entities to provide a detailed performance summary of how their entity measures its performance, more detailed integrated performance analysis and long-term expenditure trend analysis where appropriate.

3.37 It is expected to provide a cohesive and consistent understanding of performance from across the ARA.

3.38 As a minimum, the performance analysis must include:

- A short explanation of the purpose of the section and its structure.
- Information on how the entity measures performance i.e. what the entity sees as its key performance measures, how it checks performance against those measures, and narrative to explain the link between KPIs, risk and uncertainty.
- A more detailed analysis and explanation of the development and performance of the entity during the year and an explanation of the relationships and linkages between different pieces of information. This analysis is required to include a financial review which will utilise a wide range of data including key financial information from the financial statements section of the accounts. Trend data presenting balance sheet movements for assets and liabilities and detail on the type of spend incurred (on employees, equipment or buildings) are considered best practice items to include in such a financial review.
- Further detail on the risk profile of the organisation, expanding on the summary offered in the performance overview, to describe;
 - how risks have affected the organisation achieving its objectives

- how such risks have been mitigated
 - how such mitigation may affect future performance and plans
 - significant changes in risks, including their likelihood and impact
 - new and emerging risks
 - how both existing and new risks could affect performance and delivery of plans in future years.
- Non-financial information, including social matters, respect for human rights, diversity, anti-corruption and anti-bribery matters.
 - A summary of how equality of service delivery to different groups has been promoted through the organisation should be considered as part of a best practice disclosure. This is a mandatory disclosure requirement for NHS bodies regardless of whether a performance analysis is omitted from the Performance Report. Disclosure may include cross referencing separate publications that contain such information, or provision of information regarding:
 - How the entity has had due regard to the aims of the public sector equality duty where applicable.
 - Customer satisfaction scores broken down by protected characteristics where collected.
 - Performance against equality of service delivery KPIs and metrics if applicable.
 - Explanations of activities the entity is undertaking to promote equality of service delivery.
- Information on environmental matters, including the impact of the entity's business on the environment. Reporting entities are expected to report annually on sustainability matters. It is envisaged that reporting entities will produce a report that will be integral, with reference throughout the annual report and accounts and not a separate standalone report.
 - Performance on other matters raised during the year (for example, in Treasury PES papers): DHSC will notify group bodies of such additional requirements in FAQs.

3.39 Entities should include the following information on a comply or explain basis, if not captured in meeting the minimum requirements of the performance overview or analysis:

- Further detail on the structure of the organisation unless sufficient detail is already provided in the annual report.
- If unit costs are central to decision making or the accountability functions of the entity they should be disclosed where permissible. Disclosure should include assumptions employed to derive calculations and should be maintained to enable meaningful comparison across periods.
- Where data is disclosed without trend data the reason for its absence should be disclosed. This can include reasons such as this being the first year data is available for instance.
- In the financial review offered in the performance analysis, key financial indicators or measures should be employed in the broader discussion of an entity's performance. This can also include the identification of where effective or ineffective use of resources has contributed to meeting or failing to meet objectives.
- Detail in relation to future plans and expected future performance if not captured as part of the trend analyses provided in the performance analysis.
- A summary or reference to any accountability issues or breaches outlined in the accountability report, worth drawing to the attention of users. Detail from the accountability report should not be duplicated here.

3.40 Entities should also consider how the following information could be incorporated into their performance analysis to incorporate 'best practice recommendations' per the FReM:

- context and explanation of the budgeting framework with any key terms being defined
- a summary of outturn to accounts reconciliation
- A trend analysis showing spend in the budgeting currencies that are relevant to the entity (for example RDEL, CDEL, RAME, CAME, Capital Resource Limit, breakeven duty, 'adjusted financial performance' etc.) over the previous 5 years and future projections where available.

3.41 The FReM establishes that disclosing several years of trend data is best practice and that five years is a positive target to attain for reporting purposes.

3.42 Entities should ensure that trend data employed helps establish the context of the data. This means that the length of trend may appropriately vary by entity and performance indicator.

- 3.43 Clear explanations of the employment of trend data over an appropriately judged period will assist the users understanding of information disclosed.

The Accountability Report

Scope of the Accountability Report

- 3.44 The purpose of the accountability section of the annual report is to meet key accountability requirements to Parliament.
- 3.45 The requirements of the Accountability Report are based on the matters required to be dealt with in a Directors' Report, as set out in [Chapter 5 of Part 15 of the Companies Act 2006](#) and Schedule 7 of SI 2008 No.410, [The Large and Medium-sized Companies and Groups \(Accounts and Reports\) Regulations 2008](#), and in a Remuneration Report, as set out in [Chapter 6 of the Companies Act 2006](#) and Schedule 8 of SI 2013 No 1981, [The Large and Medium-sized Companies and Groups \(Accounts and Reports\) \(Amendment\) Regulations 2013](#).
- 3.46 The requirements of the Companies Act 2006 have been adapted for the public sector context and only need to be followed by entities which are not companies to the extent that they are incorporated into this manual.
- 3.47 Auditors will review the Accountability Report for consistency with other information in the financial statements and will provide an opinion on the following disclosures which must clearly be identified as audited within the Accountability Report:
- disclosures on Parliamentary accountability, as detailed in paragraph 3.129
 - single total figure of remuneration for each director
 - CETV disclosures for each director
 - payments to past directors, if relevant
 - payments for loss of office, if relevant
 - "fair pay" (pay multiples) disclosures
 - exit packages, if relevant, and
 - analysis of staff numbers and costs.
- 3.48 The Accountability Report is required to have three sections:

- a Corporate Governance Report
- a Remuneration and Staff Report
- a Parliamentary Accountability and Audit Report.

3.49 DHSC group bodies must provide a short overview of these sections and explain how they help deliver accountability to Parliament (where relevant) and embody best practice to comply with corporate governance norms and codes.

Corporate governance report

3.50 The purpose of the corporate governance report is to explain the composition and organisation of the entity's governance structures and how they support the achievement of the entity's objectives.

3.51 As a minimum, the Corporate Governance Report must include:

- the directors' report (members' report for ICBs)
- the statement of Accounting/Accountable Officer's responsibilities
- the governance statement.

The directors'/members' report

3.52 The directors'/members' report must include the following, unless disclosed elsewhere in the ARA, in which case a cross-reference may be provided:

- the names of the chair and chief executive, and the names of any individuals who were directors of the entity at any point in the financial year and up to the date the ARA was approved
- the composition of the board of directors (including advisory and non-executive members) having authority or responsibility for directing or controlling the major activities of the entity during the year
- the names of the directors forming an audit committee or committees (recommended)
- the details of company directorships and other significant interests held by members of the management board which may conflict with their management responsibilities (where a register of interests is available online, a web link may be provided instead of a detailed disclosure in the annual report)

- information on personal data related incidents where these have been formally reported to the information commissioner's office
- (NHS bodies) a statement to the effect that each director: knows of no information which would be relevant to the auditors for the purposes of their audit report, and of which the auditors are not aware, and; has taken "all the steps that he or she ought to have taken" to make himself/herself aware of any such information and to establish that the auditors are aware of it.

Statement of Accounting/Accountable Officer's responsibilities

- 3.53 The Accounting/Accountable Officer must explain his/her responsibility for preparing the financial statements.
- 3.54 The Accounting/Accountable Officer is required to confirm that, as far as he or she is aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that he or she ought to have taken to make himself or herself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.
- 3.55 The Accounting/Accountable Officer is required to confirm that the ARA as a whole is fair, balanced and understandable and that he or she takes personal responsibility for the ARA and the judgments required for determining that it is fair, balanced and understandable.
- 3.56 NHSE issues model statements of Accounting / Accountable Officer Responsibilities for use by NHS Foundation Trusts and NHS Trusts. NHSE also issues an annual report template on SharePoint for ICBs to utilise.
- 3.57 Other DHSC group bodies may wish to consider the model statements offered in the Annexes of the FReM as appropriate to their entity.

Governance statement

- 3.58 In preparing the statement, the Accounting/Accountable Officer should reflect the particular circumstances in which the entity operates.
- 3.59 NHS trusts must follow guidance to be issued by NHSE. ICBs must follow the template and guidance published via the NHSE SharePoint
- 3.60 The FReM expresses the following as minimum requirements the statement should acknowledge and explain:
- responsibilities for risk management and internal control systems and for reviewing their effectiveness

- the on-going process and structures used to identify, evaluate and manage the principal and emerging risks faced, cross referencing to the performance report where appropriate.
- that the systems have been in place for the year under review and up to the date of approval of the annual report and accounts
- the main features that support regular monitoring, review and assurance
- the process applied in reviewing the effectiveness of the system of risk management and internal control, including explaining what actions have been or are being taken to remedy any significant failings or weaknesses. Where this information has been disclosed elsewhere in the annual report and accounts, a cross-reference to where that information can be found will suffice; and
- the extent to which arrangements comply with requirements for specific sectors and jurisdictions governed by the Relevant Authorities per paragraph 3.58, such as the central government Corporate Governance Code and the Orange Book, with explanations of any departures.
- Exceptionally, where information is not reported due to issues regarding accuracy, reliability, or collection itself, this should be acknowledged. The steps being taken to improve data and disclosure, as well as when reliable data will be made available, need to be identified.

Modern Slavery Act 2015 – Transparency in Supply Chains

- 3.61 [The Modern Slavery Act 2015](#) establishes a duty for commercial organisations with an annual turnover in excess of £36 million to prepare an annual slavery and human trafficking statement.
- 3.62 This is a statement of the steps the organisation has taken during the financial year to ensure that slavery and human trafficking is not taking place in any of its supply chains or in any part of its own business.
- 3.63 Income earned by NHS bodies from government sources, including ICBs and local authorities, is considered to be publicly funded and is therefore outside the scope of these reporting requirements.
- 3.64 Where NHS bodies engage in profit-making activities, these may still be sufficient to trigger the reporting requirements. This is likely to be the case where income is earned from non-government sources, such as private patients, and where this income exceeds £36 million in total.

- 3.65 It is ultimately for individual NHS bodies to consider whether they have activities that require them to be treated as a commercial organisation for the purpose of the Modern Slavery Act 2015, and to produce the required statement accordingly.
- 3.66 The Home Office have produced a practical guide on applying the reporting requirements, [Transparency in Supply Chains etc. a practical guide](#).
- 3.67 Note that, where a slavery and human trafficking statement is required, the Act specifies that entities must publish this on their website if they have one.
- 3.68 It is not a mandatory requirement to include the statement in an entity's ARA, but DHSC group bodies may nevertheless choose to do so.

Remuneration and staff report

- 3.69 The remuneration and staff report sets out the organisation's remuneration policy for directors and senior managers, reports on how that policy has been implemented and sets out the amounts awarded to directors and senior managers and where relevant the link between performance and remuneration.
- 3.70 In addition, the report provides details on remuneration and staff that users of the accounts see as key to accountability.
- 3.71 Group bodies should consider where the inclusion of narrative, to define the scope of the information being disclosed, would assist users in this respect.

'Group' basis of preparation

- 3.72 The remuneration report must disclose information on those persons in senior positions having authority or responsibility for directing or controlling major activities within the group body.
- 3.73 This means those who influence the decisions of the entity as a whole rather than the decisions of individual directorates or departments.
- 3.74 It is important for individual entities to consider the 'group' basis of the scope governing the above requirement.
- 3.75 The Companies Act 2006, Part 15 Chapter 5, confirms the group perspective to be employed for the directors' report. This perspective is equally relevant to the determination as to which senior management influence the entity as a whole.

- 3.76 The chief executive or Accounting/Accountable Officer must be asked to confirm whether this covers more than the executive and non-executive directors (for ICBs – attendees at Governing Body meetings).
- 3.77 It is usually considered that the regular attendees of the entity's board meetings are its senior managers.
- 3.78 The 'group' basis of preparation may also have an impact on the nature of the disclosure required regarding the individual's qualifying services as detailed in paragraph 3.157(v).

Staff sharing scenarios

- 3.79 For staff-sharing arrangements, the remuneration report must include remuneration details showing the entity's share of the relevant components of remuneration, for those senior managers holding a position in the entity..
- 3.80 In addition, the senior manager's total salary (across all organisations they are engaged by) must be shown separately.
- 3.81 Where such additional information is separately presented, entities should carefully consider how best to disclose this detail in a transparent and informative manner, enabling users to effectively hold entities to account.

GDPR considerations

- 3.82 There is a presumption that information about named individuals will be given in all circumstances and all disclosures in the remuneration report will be consistent with identifiable information of those individuals in the financial statements.
- 3.83 Individuals must be advised in advance of the intention to disclose information about them, with an invitation for sight of the intended information to be published and notification that the individual can object under [Article 21 of GDPR](#).
- 3.84 If a member does not agree to disclosure, the entity must consider whether to accept non-disclosure.
- 3.85 Under such circumstances the GDPR requires the entity to demonstrate compelling legitimate grounds for the disclosure which override the interests, rights and freedoms of the member or for the establishment, exercise or defence of legal claims.
- 3.86 Entities are strongly advised to take legal advice in such a case, because a decision not to publish may be challenged under the Freedom of Information Act.

Where non-disclosure is agreed, the fact that disclosure has been omitted should be disclosed.

Subject to Audit

3.87 Certain information is auditable and will be referred to in the audit opinion. The report must be annotated to identify those items that are auditable.

Relationship between the remuneration report and exit packages, severance payments and off-payroll engagements disclosures

3.88 In many cases, individuals who fall to be named in the remuneration report will also be included, although not individually identified by name, in the exit packages, non-compulsory departures or off-payroll engagements disclosures.

3.89 Where this is the case, the remuneration report must provide the details of those agreements or payments on an individual by individual basis in a way that permits the user to cross-reference remuneration report data to that in the wider notes to the accounts.

Remuneration policy

3.90 Entities must disclose their policy on the remuneration of directors for the current and future years.

Remuneration of Very Senior Managers (VSMs) – ICBs only

3.91 Where one or more senior managers of a ICB are paid more than £150,000 per annum, the remuneration report must explain (not necessarily on an individual basis) the steps the ICB has taken to satisfy itself that this remuneration is reasonable.

3.92 Pay for a part time senior manager must be compared against a pro rata of £150,000. For this disclosure, 'pay' should be considered to be columns (a), (b), (c) and (d) of the 'single total figure table' in the remuneration report ([see Chapter 3 Annex 2 - Salary and Pension disclosure tables](#): information subject to audit).

3.93 A similar disclosure applies to NHS foundation trusts, set out separately in the FT ARM 2023-24.

Remuneration Report Tables

3.94 The tables for use as part of the remuneration report (the Single Total Figure, and Pension Entitlement tables) are 'Table 1: Single total figure table' and 'Table 2: Pension Benefits'.

- 3.95 These are reproduced with further guidance offered in [Chapter 3 Annex 2 - Salary and Pension disclosure tables](#): information subject to audit.
- 3.96 The figures relate to all those individuals who hold or have held office as a senior manager of the DHSC group body (ICBs – member of the Governing Body) during the reporting year or in the prior period.
- 3.97 Where a member has opted out of the pension arrangements for the whole of the year, no pension figures should be reported and a footnote should be included stating “xxxxx chose not to be covered by the pension arrangements during the reporting year”. If a member opts out or opts in during the year, they should be treated in the same way as a leaver or joiner.
- 3.98 If an individual is seconded into the organisation at no cost to the organisation, disclose the arrangement. It is irrelevant that:
- an individual was not substantively appointed (holding office is sufficient, irrespective of defects in appointment), or an individual's title as senior manager included a prefix such as "temporary" or "interim", or
 - an individual was engaged via a corporate body, such as an agency, and payments were made to that corporate body rather than to the individual directly.
- 3.99 It is a requirement to disclose explanations of any significant awards made to past senior managers.
- 3.100 Calculations in the single total figure table (notably in column “e” – all pensions related benefits) may return negative values. Negative figures must not be shown in any columns in the table: a zero must be substituted.
- 3.101 The only exception to this relates to instances of a recovery or withholding of sums in the current financial year, in respect of amounts disclosed in the remuneration report for a previous financial year.
- 3.102 In such instances the negative value should be shown in a separate additional column subtracted from the 'total' column and explanation given in a note to the table.
- 3.103 ICB pension disclosures relating to GPs serving on the Governing Body are discussed in [Chapter 3 ICB Appendix 2 – Pension Disclosures](#), including tables to demonstrate how the pensions disclosure of governing body members should be disclosed.

Compensation on early retirement or for loss of office

3.104 If a payment for compensation on early retirement or for loss of office (paid or receivable) has been made under the terms of legislation or an approved Compensation Scheme, the fact that such a payment has been made must be disclosed, including a description of the compensation payment and details of the total amounts paid (the cost to be used must include any top-up to compensation provided by the employer to buy out the actuarial reduction on an individual's pension).

Payments to past directors

3.105 DHSC group bodies must provide details of any payments made to any person who was not a director at the time the payment was made, but who had been a director of the entity previously, unless already disclosed within a previous remuneration report, the current year single total remuneration disclosure or within the disclosure of compensation for early retirement or loss of office.

3.106 Only payments of regular pension benefits which commenced in previous years and payments in respect of employment for the entity other than as a director may be excluded.

Fair Pay Disclosure

3.107 Entities are required to disclose pay ratio information and detail concerning percentage change in remuneration concerning the highest paid director. The specific disclosure requirements are described in paragraphs 3.108 to 3.123.

Percentage change in remuneration of highest paid director

3.108 For the single total figure table components:

- Salary and allowances
- performance pay and bonuses

3.109 Entities are required to disclose separately for each single total figure table component:

- (a) The percentage change from the previous financial year in respect of the highest paid director, and,
- (b) The average percentage change from the previous financial year in respect of employees of the entity, taken as a whole.

- 3.110 Two percentage figures will therefore be provided for each single total figure component detailed in paragraph 3.108, giving a total of four percentages to be disclosed for each financial year under this requirement.
- 3.111 The calculation for 3.109(a) for salaries and allowances shall be based on the mid-point of the band for each salary and performance pay and bonuses payable.
- 3.112 The calculation for 3.109(b) for salary and allowances shall be the total for all employees on an annualised basis, excluding the highest paid director, divided by the full-time equivalent (FTE) number of employees (also excluding the highest paid director).
- 3.113 The calculation for 3.109(b) in respect of performance pay and bonuses payable shall be the total for all employees, excluding the highest paid director, divided by the FTE number of employees (also excluding the highest paid director).
- 3.114 Prior year comparatives for each percentage change are required to be given.
- 3.115 Entities should provide context regarding the percentage figures disclosed, to help users of the accounts understand percentages disclosed. This may assist entities where comparisons are not straightforward

Pay ratio information

3.116 Entities are required to disclose:

- Range of staff remuneration
- the 25th percentile, median and 75th percentile of total remuneration (excluding pension benefits), expressed as amounts, for the reporting entity’s staff (based on annualised, full-time equivalent remuneration of all staff (including temporary and agency staff) as at the reporting date)
- the 25th percentile, median and 75th percentile of the salary component of total remuneration (excluding pension benefits), expressed as amounts, for the reporting entity’s staff (based on annualised, full-time equivalent remuneration of all staff (including temporary and agency staff) as at the reporting date)
- separate ratios for the 25th percentile, median and 75th percentile of staff remuneration against the mid-point of the banded remuneration of the highest paid director, for which an illustrative table is provided below which identifies the derivation of the pay ratio and the nature of the prior year comparative.

Year	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
------	---------------------------	------------------	---------------------------

202x-2x	X:1 (X being the mid-point of highest paid director/25th percentile of employee remuneration)	Y:1 (Y being the mid-point of highest paid director/50th percentile of employee remuneration)	Z:1 (Z being the mid-point of highest paid director/75th percentile of employee remuneration)
202x-2x	X:1	Y:1	Z:1

- an explanation for any significant changes in the ratio between the current and prior years.

3.117 All DHSC group bodies must include a narrative highlighting the reasons for any variance in year-on-year ratios in order to:

- describe the purpose of including the ratios, and what they mean
- ensure transparency in executive remuneration
- allow the public to hold government to account for their use of public funds
- provide an opportunity for entities to monitor their own remuneration and note any adverse or anomalous trends.

3.118 The narrative should be concise and clearly linked to the figures disclosed in the remuneration report and use terms that are easily understandable by the public. The narrative must be introduced by the following text:

“Reporting bodies are required to disclose the relationship between the total remuneration of the highest-paid director / member in their organisation against the 25th percentile, median and 75th percentile of remuneration of the organisation’s workforce. Total remuneration of the employee at the 25th percentile, median and 75th percentile is further broken down to disclose the salary component.

The banded remuneration of the highest paid director / member in [the organisation] in the financial year 202x-2x was £xx (202x-2x, £xx). The relationship to the remuneration of the organisation's workforce is disclosed in the below table.

202x-2x	25th percentile	Median	75th percentile
Total remuneration (£)			
Salary component of total remuneration (£)			
Pay ratio information	X:1 (for calculation see 3.115)	Y:1 (for calculation see 3.115)	Z:1 (for calculation see 3.115)
202x-2x			
Total remuneration (£)			
Salary component of total remuneration (£)			
Pay ratio information			

In 202x-2x, xx (202x-2x, xx) employees received remuneration in excess of the highest-paid director / member. Remuneration ranged from £xx to £xx (202x-2x £xx-£xx).

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind, but not severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.”

3.119 It must then be followed by a concise and factual explanation of the changes on either side of the ratio, taking into account where relevant:

- any adjustment to the number or composition of the general workforce (for example, through restructuring, downsizing and outsourcing)
- any change to the remuneration of the most highly paid individual. Entities should note that this may not necessarily be an increase to base pay, but a change in taxable

expenses or allowances. Where the allowance is temporary (for example, relocation allowance), entities must note this and its likely impact on the pay multiple

- any change of the most highly paid individual (for example, a new appointment, or the previously highest paid post having been vacated and/or eliminated)
- any impact of a pay freeze on the ratio (for example, senior pay freeze that does not affect the majority of staff.)
- whether and if so why, the entity believes the median pay ratio for the relevant financial year is consistent with the pay, reward and progression policies for the entity's employees taken as a whole.

3.120 The above list is not exhaustive and should be treated only as general guidance. It is not intended to act as a checklist of justification for higher ratios.

3.121 Where there is a sharing arrangement, it is cost to the entity of an individual that identifies them as “highest paid” and not the total of that individual’s remuneration. Termination benefits must be excluded from the calculation of the highest-paid director’s / member’s salary to avoid distorting the ratio.

3.122 Entities should consider providing the percentage change reporting required by paragraphs 3.108 to 3.115 after the disclosures relating to pay ratio information.

3.123 Annex 4 of the FReM cites the [Fair Pay Disclosures - Implementation Guidance](#) as additional guidance for this disclosure requirement.

Staff report

3.124 The staff report must include the following information:

(a) Where applicable, the number of senior civil service staff (or senior managers) by band.

(b) Staff numbers and costs – entities must provide an analysis of staff numbers and costs, distinguishing between ‘permanently employed’ staff and ‘other’ staff, which must state that the figures are subject to audit (see paragraph 3.47). In this context:

- ‘Permanently employed’ refers to members of staff with a permanent (UK) employment contract directly with the entity
- ‘Other’ refers to any staff engaged on the objectives of the entity that does not have a permanent (UK) employment contract with the entity. This includes employees on short term contracts of employment, agency/temporary staff, locally engaged staff

overseas, and inward secondments from other entities where the whole or majority of the employees' costs are met locally.

- In addition, DHSC only, is required to provide a further breakdown of benefits incurred under two additional categories (ministers and special advisors).
 - (i) The figures must exclude non-executive directors/ lay Governing Body Members but include executive board members/Governing Body Members and staff recharged by other DHSC group bodies.
 - (ii) The analysis of staff costs must additionally report by the accounts headings set out in paragraph 5.58.
 - (iii) The analysis of staff numbers must additionally report by the functional categories of employees defined in [NHS Digital's NHS Occupation Code Manual](#).
 - (iv) The average number of employees is calculated as the whole time equivalent number of employees under contract of service in each week in the financial year, divided by the number of weeks in the financial year. The "contracted hours" method of calculating whole time equivalent number must be used, that is, dividing the contracted hours of each employee by the standard working hours.
 - (v) To note: Staff on outward secondment must not be included in the average number of employees.
- (c) Staff composition – Entities must provide an analysis of the number of persons of each sex who were directors, senior civil servants (or equivalent) and employees of the entity.
- (d) Sickness absence data - NHS bodies are required to report on staff sickness. The information is also required on the summarisation schedules for consolidation purposes and will be issued by DHSC after draft accounts submission.
- (e) Staff turnover percentage - applying the Cabinet Office (CO) guidance for [calculating turnover in the civil service](#) on a comply or explain basis.
 - (i) A turnover percentage therefore should be provided, but the derivation of the percentage per the CO guidance is on a comply or explain basis.
 - (ii) Information should be provided with sufficient explanation, context, including trend data and or caveats where appropriate.

- (iii) HM Treasury have confirmed that no new data collections need to be developed in meeting this disclosure requirement.
- (iv) Entities whose staff turnover is captured as part of [NHS Digital's NHS workforce statistics](#) should refer and provide a link to, than duplicate, the data disclosed in that series. Sufficient explanation to aide user understanding of the data should be provided. This should include that the series is an official statistics publication complying with the UK Statistics Authority's Code of Practice.
- (f) For those entities who contribute to it, staff engagement percentage scores from the latest [Civil Service People Survey](#). Entities that do not participate in the Civil Service People Survey should provide similar indicators where possible, ensuring sufficient explanation and context, including trend data is provided where appropriate. The NHS Staff Survey would be an appropriate equivalent survey for NHS bodies to refer to.
- (g) Staff policies applied during the financial year:
 - (i) for giving full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities
 - (ii) for continuing the employment of, and for arranging appropriate training for, employees who have become disabled persons during the period when they were employed
 - (iii) otherwise for the training, career development and promotion of disabled employees.
 - (iv) As a best practice recommendation, but mandatory for NHS bodies, entities should include details regarding their diversity and inclusion policies, initiatives and longer term ambitions. Disclosure may include cross referencing separate publications that contain such information, or provision of information regarding:
 - How policies and activities undertaken in the year have or will improve the diversity and inclusiveness of the workforce.
 - Whether the entity has identified any barriers to improving the diversity of its workforce and if so, what actions the entity has or will put in place.
 - Changes in staff composition impacting on the diversity and inclusiveness of the workforce, including appropriate trend data.

- Performance against internal targets set in relation to diversity and inclusiveness of the workforce if applicable.
- (h) Trade Union Facility Time Reporting Requirements - Entities in scope of the [Trade Union \(Facility Time Publication Requirements\) Regulations 2017](#), which took effect from 1 April 2017, are required to publish detail as prescribed by the Statutory Instrument (SI) in their ARA.
 - (i) The regulations and subsequent disclosure apply to those entities listed in schedule 1 part 2 and part 5 of the regulations that are an employer with at least one trade union representative and has more than 49 full time equivalents during any seven, of the twelve-month relevant period (1st April to 31st March).
 - (ii) Disclosure would not be required if the period of the annual report for a demising trust is less than seven months.
 - (iii) Entities should note that legal titles, rather than operating titles are employed in the schedule. For instance, the Health and Social Care Information Centre is referenced rather than its trading name of NHS Digital.
 - (iv) Whilst the majority of Group bodies are in scope, it is a deliberate act on the part of the regulations to exclude advisory bodies, expert panels and bodies with a predominantly commercial focus.
 - (v) Per the [Cabinet Office guidance on facility time publication](#) offered to assist preparers in meeting the ARA and wider reporting requirements, disclosure can be made in the form prescribed by the SI in the staff report, or can be referenced in the staff report and then disclosed fully and in the prescribed form, in an annex to the ARA.
 - (vi) Schedule 2 of the regulation and Annex A of the Cabinet Office guidance provide the prescribed layout for the disclosure under this regulation. No disclosures are required for prior periods
- (i) Other employee matters – other diversity issues and equal treatment in employment and occupation; employment issues including employee consultation and/or participation; health and safety at work; trade union relationships; and human capital management such as career management and employability, pay policy etc.
- (j) Expenditure on consultancy (see [Chapter 5 Annex 2: Consultancy definition](#))

- (k) Off-payroll engagements – Treasury requires public sector bodies to report arrangements whereby individuals are paid through their own companies (and so are responsible for their own tax and NI arrangements).
 - (i) Model templates along with further guidance on “Off-payroll” disclosures can be found in [Chapter 3 Annex 4 – “Off payroll” engagements](#).
 - (ii) The report must state whether there are, or are not, engagements to report under this heading (i.e. a NIL return is required).
- (l) Exit packages – The figures to be disclosed here relate to exit packages agreed in the year. The actual date of departure might be in a subsequent period, and the expense in relation to the departure costs may have been accrued in a previous period. The data here is therefore presented on a different basis to other staff cost and expenditure notes in the accounts. The disclosure must state that the figures are subject to audit (see paragraph 3.47).
 - (i) HM Treasury has issued specific guidance on severance payments (i.e. covering any payments that are not made under either legal or contractual obligation): this is now included in HM Treasury’s [Managing Public Money](#). Special severance payments when staff leave a public sector employer should only rarely be considered. They will always require HM Treasury approval because they are usually novel, contentious and potentially repercussive: NHS bodies have no delegated authority to make such payments unless so approved.
 - (ii) Model templates can be found in [Chapter 3 Annex 3 – Exit packages and severance payments](#).

Parliamentary accountability and audit report

- 3.125 The Parliamentary accountability and audit report is a requirement for those entities that report directly to Parliament. It is therefore also required in the consolidated DHSC annual report.
- 3.126 Entities that do not produce a Parliamentary accountability report must nevertheless include an audit certificate and report.
- 3.127 DHSC group bodies that are not required to produce a Parliamentary accountability report may include these disclosures within the annual report.

- 3.128 Where an entity elects not to do this, it must include the disclosures on remote contingent liabilities, losses and special payments, gifts, and fees and charges as notes within its financial statements.
- 3.129 There will be a need to collect data for the consolidated account via the summarisation schedules to assist the completion of this report.
- 3.130 Therefore, regardless of applicability of this report, all DHSC group bodies must ensure the summarisation schedule is completed.
- 3.131 The Parliamentary Report will contain disclosures on the following (as outlined in the FReM Chapter 6), which must be stated as being subject to audit:

Requirement	Sector			
	DHSC	DHSC ALBs	NHS trusts	ICBs
Statement of Parliamentary Supply	Mandatory	N/A	N/A	N/A
Name of public sector bodies outside boundary where department has lead policy responsibility	Mandatory	N/A	N/A	N/A
Brief description of material remote contingent liabilities (under Parliamentary reporting requirements not IAS 37) and estimate of its financial effect*	Mandatory	Mandatory	Optional (para.3.127)	Optional (para3.127.)
An explanation of the regularity of expenditure	Mandatory	Mandatory	Optional	Optional
A statement is required if cost allocation and charging requirements set by HMT have not been complied with	Public Sector Information Holders only		N/A	N/A
A statement of losses and special payments over £300k**	Mandatory	Mandatory	Optional (para.3.127)	Optional (para 3.127)
Notation of gifts made over a value of £300k (per Managing Public Money annex 4.12 – note these require HMT approval)***	Mandatory	Mandatory	Optional (para 3.127)	Optional (para 3.127)
Analysis of material (>£1m) fees and charges income. This must include: 1) the financial objective(s) and performance against the objectives; 2) the full cost and unit costs charged in year; 3) the total income received in year; 4) the nature/extent of any subsidies or overcharging	Mandatory	Mandatory	Optional (para 3.127)	Optional (para 3.127)

A statement about the use of government functional standards. Detail about the use of these standards can be found in HM Treasury's announcement mandating the use of functional standards across departments and arm's length bodies by the end of March 2022	Mandatory	Mandatory	Optional	Optional
Audit certificate and report****	Mandatory	Mandatory	Mandatory	Mandatory

*Guidance on the reporting requirements for contingent liabilities, including those too remote to require disclosure under IAS 37 but which must nevertheless be reported to Parliament, can be found in [Managing Public Money](#) and within the [Contingent Liability Approval Framework](#) published by HM Treasury.

** Refers to losses and special payments where the total amounts incurred are over the limits prescribed in [Managing Public Money](#) (£300k) In the case of reporting on special payments which are severance payments, the detail to be disclosed must include the number of special severance payments made, the total amount paid out, and the maximum (highest), minimum (lowest) and median values of payments made. (An entity must disclose where some of the required detail is excluded due to the reporting of special severance payments conflicting with a legal obligation arising as a result of the Data Protection Act 2018, or otherwise.)

*** In line with the guidance in [Managing Public Money Annex 4.12](#), DHSC group bodies must report on the total value of gifts made, if this exceeds £300k, and provide details of any individual gifts over £300k. DHSC group bodies are not expected to make gifts in the normal course of business, and must contact their national body or DHSC sponsor division in the first instance.

**** Where the relevant legislation requires the auditor to report on the examination of the financial statements, the auditor will provide such a report. The form and content of the report is the responsibility of the auditor. Where the auditor has no substantive comment to make, the report will generally be in the form of a single sentence appended to the audit opinion in the form: 'I have no observations to make on these financial statements'. Where there is a substantive report, it will be referred to in the audit opinion, but will be quite separate from it.

3.132 Where an entity has included the above disclosures in its annual report, it must omit the equivalent disclosure notes to the financial statements referred to in [Chapter 5](#).

Publication of the Annual Report and Accounts

Entities that do not lay accounts before Parliament

3.133 DHSC group bodies that are not required to lay their ARA before Parliament (NHS trusts, ICBs, NHS charities, other DHSC bodies) must publish them locally.

3.134 NHS trusts may publish ARAs in advance of the consolidated Resource Account being submitted by DHSC to Parliament.

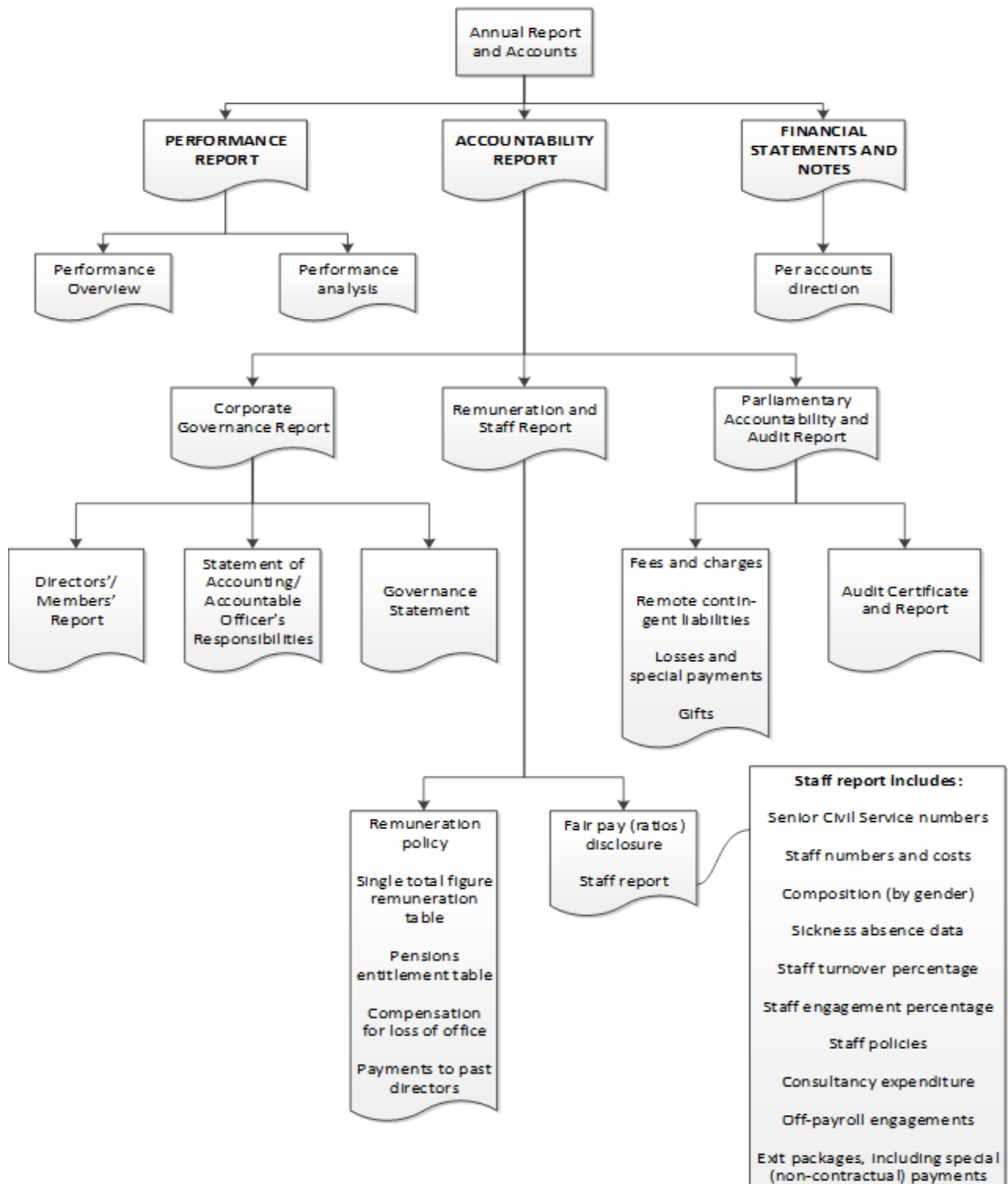
3.135 ICBs should refer to [Chapter 3 ICB Appendix 1: Additional Requirements for ICBs](#) for further guidance.

Separate performance report overview and supplementary material

- 3.136 For DHSC group bodies that do lay accounts before Parliament there is discretion to publish a separate performance report overview and supplementary material, rather than the full ARA.
- 3.137 These accounts must not be published before the ARA has been laid before Parliament.
- 3.138 The Companies Act 2006 refers to publishing a strategic report with supplementary material. The FReM has replaced the strategic report in the public sector with the performance report.
- 3.139 For the DHSC group, the performance report overview section (as defined in this chapter) is the equivalent to the strategic report for these purposes.
- 3.140 The performance review: performance overview and supplementary material must contain the Annual Governance Statement and must be made available to the public free of charge.
- 3.141 A reasonable copying charge may be levied only for copies of the full audited accounts, where the decision has been made to publish the strategic report and supplementary material.
- 3.142 The supplementary material must, as a minimum in accordance with section 426A of the Companies Act 2006:
- contain a statement that the performance report: performance overview is only part of the entity's ARA
 - state how a person can obtain a copy of the full ARA
 - state whether the auditor's report on the full ARA was unqualified or qualified and, if qualified, set out the auditor's report in full together with any further material needed to understand the qualification
 - state whether, in that auditor's report, the auditor's statement as to whether the performance report: performance overview and directors' report was consistent with the accounts and was unqualified or qualified. If it was qualified, set out the qualified statement in full together with any further material needed to understand the qualification, and
 - contain a copy of that part of the directors' remuneration report which sets out the single total figure table in respect of the entity directors' remuneration.

Chapter 3 Annex 1 - Annual Report and Accounts Outline Structure

3.143 In summary, the structure for the Annual Report and Accounts, as defined by the FReM is as follows:



Chapter 3 Annex 2 - Salary and Pension disclosure tables: information subject to audit

- 3.144 This annex provides a standard layout for the disclosure of salary and pensions paid to staff, which will be subject to audit.
- 3.145 The guidance that follows specifies minimum requirements for disclosure. In all instances entities should consider how additional narrative and presentation can assist users understanding of the disclosure.
- 3.146 Where considered appropriate entities should reference the statutory regulations and guidance that govern the disclosures being made, providing links where specific regulations are referenced.

Salaries and allowances

Table 1: Single total figure table

Name and title	(a) Salary (bands of £5,000)	(b) Expense payments (taxable) to nearest £100*	(c) Performance pay and bonuses (bands of £5,000)	(d) Long term performance pay and bonuses (bands of £5,000)	(e) All pension-related benefits (bands of £2,500)	(f) TOTAL (a to e) (bands of £5,000)
	£000	£	£000	£000	£000	£000

*Note: Taxable expenses and benefits in kind are expressed to the nearest £100. The values and bands used to disclose sums in this table are prescribed by the Cabinet Office through Employer Pension Notices and replicated in the HM Treasury Financial Reporting Manual.

- 3.147 Provide comparative information for the prior year.
- 3.148 Disclose, for each individual, payments or compensation for loss of office, and cross-reference this to other disclosures and notes in the accounts (for example, exit packages and non-compulsory departures).

3.149 Where more than one individual occupied the same post over the year, details must be disclosed here.

Table 2: Pension Benefits

Name and title	(a) Real increase in pension at pension age (bands of £2,500)	(b) Real increase in pension lump sum at pension age (bands of £2,500)	(c) Total accrued pension at pension age at 31 March 20xx (bands of £5,000)	(d) Lump sum at pension age related to accrued pension at 31 March 20xx (bands of £5,000)	(e) Cash Equivalent Transfer Value at 1 April 20xx	(f) Real increase in Cash Equivalent Transfer Value	(g) Cash Equivalent Transfer Value at 31 March 20xx	(h) Employer's contribution to stakeholder pension
	£000	£000	£000	£000	£000	£000	£000	£000

3.150 As non-executive directors do not receive pensionable remuneration, there will be no entries in respect of pensions for non-executive directors.

Cash Equivalent Transfer Values

3.151 A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the pension scheme benefits accrued by a member at a particular point in time.

3.152 The benefits valued are the member's accrued benefits and any contingent spouse's (or other allowable beneficiary's) pension payable from the scheme. CETVs are calculated in accordance with [SI 2008 No.1050 Occupational Pension Schemes \(Transfer Values\) Regulations 2008](#).

Real Increase in CETV

3.153 This reflects the increase in CETV that is funded by the employer.

3.154 It does not include the increase in accrued pension due to inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement).

Instances in which members have opted out of pension schemes

3.155 Where a member has opted out of the pension arrangements for the whole of the year, no pension figures should be reported and a footnote should be included stating “xxxxx chose not to be covered by the pension arrangements during the reporting year”. If a member opts out or opts in during the year, they should be treated in the same way as a leaver or joiner.

Content of tables: salaries and allowances

3.156 The requirements of [Part 3 of Schedule 8 of the Large and Medium-sized Companies and Groups \(Accounts and Reports\) \(Amendment\) Regulations 2013](#) (the 2013 Regulations) are set out below. In the table in paragraph 5 of the schedule, column:

- (a) is salary and fees (in bands of £5,000)
- (b) is all taxable benefits (total to the nearest £100)
- (c) is annual performance-related bonuses (in bands of £5,000)
- (d) is long-term performance-related bonuses (in bands of £5,000)
- (e) is all pension-related benefits (in bands of £2,500)
- (additional columns must also be included for any other items in the nature of remuneration - but excluding payments to former senior managers (see below))
- (f) the final column is total of the above items (in bands of £5,000).

3.157 Each of the above requirements is disclosed for each individual in scope of this reporting requirement and are described in further detail below.

(a) the total amount of salary and fees paid to or receivable by the person in respect of qualifying services (in bandings of £5,000).

- (i) Salary and other remuneration covers both pensionable and non-pensionable amounts. The amounts paid or payable by the entity in respect of the period the senior manager held office must be shown.

- (ii) Where, for example, an individual held a contract of employment for the entire financial year but was only a senior manager for six months, it is the remuneration for six months which must be shown.
- (iii) Where there has been overlap in a post, for example where there have been two finance directors for a month, or where a temporary director has covered another on long term absence, both must be shown, together with the date the post was started or vacated.
- (iv) Where the senior manager has been employed under separate contracts for different services for the same entity, it may be useful to note this below the table.
- (v) Qualifying services of a senior manager include duties for the entity that are not part of their management role.
- (vi) Where a senior manager's remuneration includes elements for their management role and another role, for example clinical roles of medical directors and similar staff, the remuneration report must reflect the total remuneration paid by the entity for the individual's services to the entity, including remuneration for duties that are not part of their management role.
- (vii) For transparency, entities must disclose the element of the individual's total remuneration from the entity that relates to their non-managerial role. This disclosure need not include details of the individual components (columns) of the single total figure table if the split between elements is not available in this detail.
- (viii) Where the individual receives part of their remuneration from another body, for example a GP providing services as a director at a ICB, the entity must make disclosures only in respect of its share of the individual's remuneration. This is separate and distinct to staff sharing considerations.
- (ix) Note the requirement detailed in paragraph 3.79, relating to staff sharing arrangements in which the total salary for the senior manager across all the organisations they are engaged by, must be a separate and distinct disclosure to the salary and fees paid in respect of qualifying services for the entity.
- (x) Paragraph 48 of Schedule 8 of the 2013 Regulations confirms that where necessary distinctions are required to ensure compliance with the reporting requirements, apportionments of payments can be made as is appropriate.

(xi) Salary includes:

- all amounts paid or payable by the entity including recharges from any other entity
- overtime
- the gross cost of any arrangement whereby a senior manager receives a net amount and an entity pays income tax on their behalf
- any financial loss allowances paid in place of remuneration
- geographical allowances such as London weighting, or other recruitment and retention allowances, and
- any other allowance which is subject to UK taxation and any severance or ex-gratia payments.

(xii) Salary Excludes

- recharges to any other entity
- reimbursement of out-of-pocket expenses
- reimbursement of "travelling and other allowances" (paid under determination order) including home to work travel costs
- taxable benefits
- employers' superannuation and National Insurance contributions
- performance related bonuses (these are recorded separately), and
- any amount paid which the director must subsequently repay.

(b) all taxable benefits (to the nearest £100 and disclosed in £s).

(i) This is the gross value of such benefits before tax. It includes:

- expenses allowances that are subject to UK income tax and paid or payable to the person in respect of qualifying services, and
- benefits received by the person (other than salary) that are emoluments of the person and are received by them in respect of qualifying services.

- (ii) A narrative disclosure to detail the nature of these benefits. Entities may consider it informative to disclose the footnote to table 1.

(c) annual performance pay and bonuses (in bandings of £5,000)

- (i) These comprise money or other assets received or receivable for the financial year as a result of achieving performance measures and targets relating to a period ending in the relevant financial year other than:
 - those which result from awards made in a previous financial year and the final vesting is determined as a result of achieving performance measures or targets relating to a period ending in the relevant financial year, and
 - those which are receivable subject to the achievement of performance measures or targets in a future financial year.
- (ii) Where an amount included in column (c) is for a deferred bonus, the amount and percentage of such deferral must be disclosed in a note accompanying the table.

(d) long-term performance pay and bonuses (in bandings of £5,000).

- (i) These comprise money or other assets received or receivable for periods of more than one year where final vesting:
 - is determined as a result of achieving performance measures or targets relating to a period ending in the relevant financial year, and
 - is not subject to the achievement of performance measures or targets in a future financial year.
- (ii) For both columns (c) and (d), where the performance measures or targets are substantially (but not fully) completed by the end of the financial year, the amount shown in the table may include sums which relate to the following financial year but this must be explained in the report. In the following year's report, the amount must not be included as remuneration for that year.
- (iii) For every component of remuneration included in columns (c) or (d), a note accompanying the table must disclose:
 - details of any performance measures and the relative weighting of each;
 - for each performance measure:

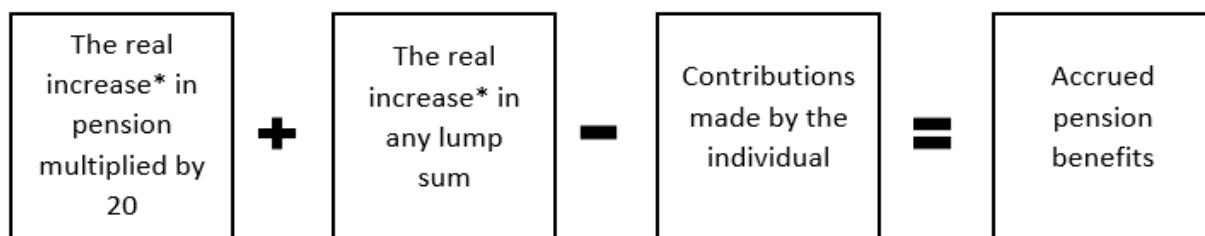
- the performance targets set at the beginning of the performance period and the corresponding value of bonus achievable, and
- details of actual performance against the targets set and measured over the performance period and the resulting bonus awarded.
- where discretion has been exercised in the award, details of how the discretion was exercised and how the resulting bonus was determined.

(iv) Compiling the above detail for all remuneration regarding performance pay and bonuses will assist entities in determining whether the sums should be disclosed in column (c) or column (d).

(e) all pension-related benefits (in bandings of £2,500), including:

- the cash value of payments (whether in cash or otherwise) in lieu of retirement benefits, and
- all benefits in year from participating in pension schemes. These are the aggregate input amounts, calculated using the method set out in [section 229 of the Finance Act 2004](#).
- Paragraph 10(1)(e)(ii)(cc) of [schedule 8 of SI 2013 No.1981, The Large and Medium-sized Companies and Groups \(Accounts and Reports\) \(Amendment\) Regulations 2013](#) (update to the Finance Act 2004) requires the exclusion of any employee contributions from the figure arrived at to reach the amount which must be disclosed.

(i) This figure will include those benefits accruing to senior management from membership of the NHS Pension Scheme which is a defined benefit scheme (although accounted for by NHS bodies as if it were a defined contribution scheme). It is to be disclosed in £2,500 bands following the calculation expressed as follows:



*The real increase is the difference between the annual rate of pension or value of any lump sums payable to the director at the end of the financial year and the rate or values payable at the start of the year. It excludes increases due to inflation/decreases due to transfer of pensions rights.

- (ii) The information will be provided by the pension scheme the director is a member of, as part of the Greenbury disclosure requirements.
- (iii) Employee contributions for the year are deducted in the calculation above.
- (iv) Annex D of the NHS Business Services Authority guidance on the [Disclosure of Senior Managers Remuneration \(Greenbury\)](#) provides further detail regarding the context and calculation to be made by entities, as well as a worked example to assist preparers.
- (v) Specific consideration should be given to the provision of additional narrative to explain how the figure in column (e) is calculated, what the figure signifies and offering high level explanation as to significant variations between senior managers in year or between years for the same individual, if this is considered to be informative.
- (vi) As such the following is recommended to be disclosed;

"The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20, less, the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

This value does not represent an amount that will be received by the individual. It is a calculation that is intended to convey to the reader of the accounts an estimation of the benefit that being a member of the pension scheme could provide.

The pension benefit table provides further information on the pension benefits accruing to the individual."

- (vii) Further to the above, entities considering it informative to expand upon the reasons as to why significant variation is found between pension related benefits calculated, may wish to insert a paragraph similar to the following but including only pertinent factors for their entity;

"Factors determining the variation in the values recorded between individuals include but is not limited to:

A change in role with a resulting change in pay and impact on pension benefits

A change in the pension scheme itself

Changes in the contribution rates

Changes in the wider remuneration package of an individual"

(f) the total of the values disclosed in columns (a) to (e) (in bandings of £5,000).

- (i) This is expressed in bandings of £5,000 to be consistent with the salary and performance pay bandings.

Complex Arrangements

- (i) In line with paragraph 3.145, Part 1 of Schedule 8 of the 2013 regulations, paragraph 2 (2) confirms that the provisions of the Schedule;

- do not prevent entities setting out additional information as is considered appropriate and,
- allow any items to be shown in greater detail.

- (ii) Specific consideration of these points should be made where complex arrangements exist.

Content of tables: pensions

3.158 Total pension entitlement. For each senior manager, Companies Act regulations require disclosure of:

- the pension entitlement at the end of the year: this requirement is met by the completion of the "pensions" table, the contents of which are described below
- a description of additional benefits that will become receivable by the individual in the event that they retire early, and
- separate disclosures where the individual is a member of more than one scheme.

3.159 Pension entitlements: The information required in FReM 6.5.9 must be disclosed as follows:

- (a) the real increase during the reporting year in the pension at pension age in bands of £2,500
- (b) the real increase during the reporting year in the pension related lump sum at pension age in bands of £2,500

- (c) the value at the end of the reporting year of the pension at pension age in bands of £5,000
- (d) the value at the end of the reporting year of the pension related lump sum at pension age in bands of £5,000
- (e) the value of the cash equivalent transfer value at the beginning of the reporting period to the nearest £1,000
- (f) the real increase in the cash equivalent transfer value at the end of the reporting period to the nearest £1,000, and
- (g) the value of the cash equivalent transfer value at the end of the reporting period to the nearest £1,000
- (h) in the case of a stakeholder pension account, the employer's contribution (the disclosures requirements between (a) and (g) above, will not apply).

Payments for loss of office

3.160 For each individual who was a senior manager in the current or in a previous financial year, that has received a payment for loss of office during the financial year, the following must be disclosed:

- the total amount payable to the individual, broken down into each component
- an explanation of how each component was calculated
- any other payments to the individual in connection with the termination of services as a senior manager, including outstanding long-term bonuses that vest on or following termination, and
- where any discretion was exercised in respect of the payment, an explanation of how it was exercised.

Payments to past senior managers

3.161 The report must contain details of any payments of money or other assets to any individual who was not a senior manager during the financial year but has previously been a senior manager at any time.

3.162 The following payments do not need to be reported in this disclosure:

- payments for loss of office (which are separately reported above)

- payments that are otherwise shown in the single total figure table
- payments that have already been disclosed by the entity in a previous remuneration report
- payments for regular pension benefits that commenced in a previous year, and
- payments for employment or services provided by the individual other than as a senior manager of the entity.

NHS Business Services Authority (NHS BSA) Greenbury Guidance

- 3.163 The revised NHS BSA guidance concerning [Disclosure of Senior Managers Remuneration \(Greenbury\)](#) offers significant detail and worked examples assisting entities with the derivation of the values for each column.
- 3.164 The guidance makes specific reference to examples of deriving the appropriate values for senior managers only in post part year.

Discussion with auditors regarding remuneration reporting

- 3.165 Entities should note paragraph 49, Schedule 8 of the 2013 Regulations which requires information to be disclosed only so far as it is contained in the entity's books and papers, available to members of the public, or the entity has a right to obtain it.
- 3.166 It is advisable that entities establish these expectations with auditors early in the engagement. This is particularly necessary where changes and or additions are being considered in relation to disclosures subject to audit.

Chapter 3 Annex 3 – Exit packages and severance payments

Introduction

- 3.167 This annex provides two model tables designed to meet HM Treasury reporting requirements for exit packages and non-compulsory departures.
- 3.168 These additional disclosures are required to strengthen accountability in the light of public and Parliamentary concern about the incidence and cost of these payments. Both tables are shown at the end of the Annex.
- 3.169 Tables 1 and 2 must be consistent with related disclosures in (a) the Remuneration Report and (b) the Losses and Special Payments Note.
- 3.170 Where entries here relate to individuals listed in the Remuneration Report, there must be a separate disclosure in the Remuneration Report listing details of the individuals' severance payments (whether compulsory or voluntary).
- 3.171 Similarly, the Losses Statements must be consistent with those listed here under "special non-contractual payments". In line with the consistency requirements stated above, comparative information should be included.

Exit packages

- 3.172 This note (table 1) discloses details of all exit packages, analysed between compulsory redundancies and other, or non-compulsory, departures. The values of these exit packages are analysed by cost band.

Non-compulsory departures

- 3.173 This note (table 2) discloses the number of non-compulsory departures which attracted an exit package in the year, and the values of the associated payment(s) by individual type.
- 3.174 The note is prepared on the same basis as table 1 i.e. showing the exit packages agreed in the year, irrespective of the actual date of accrual or payment.
- 3.175 The total value in this note must agree with the Total Resource Cost for Other Departures Agreed in table 1.

- 3.176 However, there are likely to be differences in the component numbers as table 1 relates to the number of individuals receiving an exit package while this note gives the number for each component.
- 3.177 As a single exit package is likely to be made up of several components each of which will be counted separately, the total number is likely to be higher than the number of individuals.
- 3.178 Contractual payments relating to individual contractual entitlements are to be disclosed in the following categories:
- voluntary redundancies including early retirement costs (the cost to be used must include any top-up to compensation provided by the employer to buy out the actuarial reduction on an individual's pension)
 - mutually agreed resignations (MARS)
 - early retirements in the efficiency of the service and payments in lieu of notice (contractual)
- 3.179 Exit payments made following an Employment Tribunal or court order are also included. Any such payments are considered contractual as the orders have to be paid by the party against whom the order is made, although may relate to compensation for loss of office.
- 3.180 Non-contractual payments are those made outside contractual or legal obligation, including those from judicial mediation.
- 3.181 Pre-authorisation from the HM Treasury (or the relevant national body for cases below de minimis limits) must be sought for such payments before they are agreed with the employee.
- 3.182 In the footnote the amounts of any non-contractual payments in lieu of notice are to be listed.
- 3.183 A further footnote discloses the number and value of non-contractual payments made to individuals where the payment was more than 12 months annual salary.
- 3.184 The reference salary for this disclosure is the annualised salary at the date of termination of employment, and excludes bonus payments and employer's pension contributions.

- 3.185 The entity must also disclose the maximum (highest), minimum (lowest) and median values of special severance payments, i.e. amounts included in the 'non-contractual payments' line of the table.
- 3.186 It follows that for any values included here, working papers will document the relevant approval for the payment.

Table 1: Exit packages

Exit package cost band (including any special payment element)	Number of compulsory redundancies	Cost of compulsory redundancies	Number of other departures agreed	Cost of other departures agreed	Total number of exit packages	Total cost of exit packages	Number of departures where special payments have been made	Cost of special payment element included in exit packages
	WHOLE NUMBERS ONLY	£s	WHOLE NUMBERS ONLY	£s	WHOLE NUMBERS ONLY	£s	WHOLE NUMBERS ONLY	£s
Less than £10,000								
£10,000 - £25,000								
£25,001 - £50,000								
£50,001 - £100,000								
£100,001 - £150,000								
£150,001 - £200,000								
>£200,000								
Totals				Agrees to A below				

Redundancy and other departure costs have been paid in accordance with the provisions of the [NHS Scheme name]. Exit costs in this note are the full costs of departures agreed in the year. Where the [organisation] has agreed early retirements, the additional costs are met by the [organisation] and not by the NHS Pensions Scheme. Ill-health retirement costs are met by the NHS Pensions Scheme and are not included in the table.

[Note: entities must provide additional text if any payments are not covered by the [NHS Pensions scheme], for example ex-gratia payments agreed with the Treasury / exit scheme details where using another scheme (e.g. MARS).]

This disclosure reports the number and value of exit packages agreed in the year. Note: the expense associated with these departures may have been recognised in part or in full in a previous period.

Table 2: Analysis of Other Departures

Type of Other Departures	Agreements Number	Total Value of Agreements £000s
Voluntary redundancies including early retirement contractual costs		
Mutually agreed resignations (MARS) contractual costs		
Early retirements in the efficiency of the service contractual costs		
Contractual payments in lieu of notice*		
Exit payments following Employment Tribunals or court orders		
Non-contractual payments requiring HMT approval**		
Total		Agrees to total in table 1

As a single exit package can be made up of several components each of which will be counted separately in this Note, the total number above will not necessarily match the total numbers in Note xx which will be the number of individuals.

* any non-contractual payments in lieu of notice are disclosed under “non-contractual payments requiring HMT approval” below.

**includes any non-contractual severance payment made following judicial mediation, and X (list amounts) relating to non-contractual payments in lieu of notice.

X (number) non-contractual payments (£x,000) were made to individuals where the payment value was more than 12 months’ of their annual salary.

The Remuneration Report includes disclosure of exit payments payable to individuals named in that Report

Chapter 3 Annex 4 – “Off-payroll” engagements

Introduction

- 3.187 A HM Treasury requirement for public sector bodies to report arrangements whereby individuals are paid through their own companies (and so are responsible for their own tax and NI arrangements, not being classed as employees) has been promulgated in Public Expenditure System (PES) guidance.
- 3.188 HM Treasury’s guidance on this is summarised below.

Reformed off-payroll Working Rules

- 3.189 The Government has reformed the Intermediaries legislation, introducing Chapter 10 Part 2 Income Taxes (Earnings and Pensions) Act 2003 (ITEPA 2003) supporting Chapter 8 Part 2 ITEPA 2003, often known as IR35.
- 3.190 The legislation for the off-payroll working rules within the public sector applies to payments made on or after 6 April 2017.
- 3.191 Under the reformed off-payroll working rules, Departments must determine whether the rules apply when engaging a worker through a Personal Service Company (PSC).
- 3.192 Guidance and more information can be found here: [Off-payroll working rules \(IR35\) for public authorities - GOV.UK.](#)
- 3.193 The cross-government Tax Centre of Excellence (TCoE) has similarly offered guidance on common themes and offer links to additional Cabinet Office and HMRC guidance. This guidance is accessible to all on the [TCoE website.](#)
- 3.194 DHSC group bodies will already be operating the new rules to provide employment status determinations for all of their off-payroll engagements.
- 3.195 Bodies will have also established a periodic re-assessment mechanism from 6 October 2017, in line with the revised reporting requirements of Table 2, covered below.

Inclusion in Annual Reports

- 3.196 DHSC group bodies must include the disclosures set out below within the staff report section of their ARA (or within the financial statements if they wish, but if so, clearly signposted from the staff report).
- 3.197 There is no requirement to have the disclosure audited (although inclusion in the financial statements will bring the disclosure into the scope of audit), and DHSC will not require information for consolidation purposes from NHS trusts, NHS foundation trusts and ICBs.
- 3.198 DHSC will, however, disclose comparable figures in respect of its own core and agency business, and consolidated figures from DHSC ALBs, together with a note that individual DHSC group bodies are required to make disclosures in the remuneration report section of their ARA.
- 3.199 DHSC group bodies should be aware that this information is provided in the public interest and may be expected to be requested under the [Freedom of Information Act 2000](#).

Guidance

- 3.200 Following the [Review of the tax arrangements of public sector appointees](#) published by the Chief Secretary to the Treasury on 23 May 2012, departments and their arm's length bodies (this is taken to include all those bodies included within the DHSC reporting boundary) must publish information on their highly paid and/or senior off-payroll engagements.
- 3.201 Payments to GP practices for the services of employees and GPs are deemed to be "off-payroll" engagements, and are therefore subject to these disclosure requirements.
- 3.202 HM Treasury guidance confirms that the reported data should include (where paid £245 or more per day per day) those appointments to which the off-payroll legislation applies whereby the department and their ALBs are required to undertake IR35 assessments under Chapter 10 ITEPA 2003.
- 3.203 This applies as defined to: "a worker (or contractor), not employed by the client department, the supplier or any other organisation within the supply chain, that instead provides their services through their own limited company or another type of intermediary to the client. An intermediary will usually be the worker's own personal service company but could also be a partnership or an individual."

- 3.204 Reported data should also include those appointments that are not on the entities payroll and where the off-payroll legislation does not apply. For example, the legislation does not apply to sole traders or workers that are employed by and on the payroll of an umbrella company, agency or other organisation in the supply chain.
- 3.205 Off-payroll appointments should be included regardless of the commercial route through which they are engaged. The disclosures are not limited to workers engaged via the Public Sector Resourcing Framework and should include procurements of resource / workers through other frameworks such as, but not limited to, Digital Outcomes and Specialists, G-cloud, Non-Medical Non-Clinical and all other commercial routes aside.
- 3.206 Those not to be included in the reported data include workers that are controlled and directed by external suppliers in the course of providing the department with a contracted-out service, workers who are seconded to the department and on the payroll of the supplying organisation and consultants that are providing consultancy services to the department that do not go beyond provision of advice.
- 3.207 As part of the remuneration report section of their ARA DHSC group bodies must present the data described below in the following sections.

Length of all highly paid off payroll engagements

3.208 For all highly paid off-payroll engagements as of 31 March 2024, greater than £245 per day:

- the total number of existing engagements as of 31 March 2024
- the number that have existed for less than one year at time of reporting
- the number that have existed for between one and two years at time of reporting
- the number that have existed for between two and three years at time of reporting
- the number that have existed for between three and four years at time of reporting
- the number that have existed for four or more years at time of reporting,

3.209 Disclosure must be in the format shown in [Table 1: Length of all highly paid off-payroll engagements](#) below.

Off-payroll workers engaged at any point during the financial year

3.210 For all off-payroll appointments engaged at any point between 1 April 2023 and 31 March 2024, greater than £245 per day:

- the number of off-payroll workers engaged between April 2023 and March 2024
- the number not subject to off-payroll legislation
- the number subject to off-payroll legislation and determined as in-scope of IR35
- the number subject to off-payroll legislation and determined as out-of-scope of IR35
- the number of engagements reassessed for compliance or assurance purposes during the year
- of which the number of engagements that saw a change to IR35 status following review.

3.211 Disclosure must be in the format shown in [Table 2: Off-payroll workers engaged at any point during the financial year](#) below.

3.212 Off-payroll worker tax liabilities and or HMRC penalties imposed as a result of non-compliance with off-payroll worker legislation must be disclosed as a loss per the requirements outlined in the table below paragraph 3.131. References to such losses must also be disclosed beneath the table 2.

Board Member/Senior Management engagements

3.213 For any off-payroll engagements of board/Governing Body members and/or senior officials with significant financial responsibility between 1 April 2023 and 31 March 2024 reporting entities must also disclose:

- the number of off-payroll engagements of board/Governing body members and/or senior officials with significant financial responsibility
- details of the exceptional circumstances that led to each of these engagements
- details of the length of time each of these exceptional engagements lasted
- the total number of individuals both on and off-payroll that have been deemed “board members and/or senior officials with significant financial responsibility” during the financial year. This total figure must include engagements which are ON PAYROLL as well as those off-payroll.

3.214 Disclosure must be in the format shown in [Table 3: Off-payroll board member/senior official engagements](#) below.

Table 1: Length of all highly paid off-payroll engagements

For all off-payroll engagements as of 31 March 2024, for more than £245⁽¹⁾ per day :

	Number
Number of existing engagements as of 31 March 2024	
Of which, the number that have existed:	
for less than one year at the time of reporting	
for between one and two years at the time of reporting	
for between 2 and 3 years at the time of reporting	
for between 3 and 4 years at the time of reporting	
for 4 or more years at the time of reporting	

Note

(1) The £245 threshold is set to approximate the minimum point of the pay scale for a Senior Civil Servant.

Table 2: Off-payroll workers engaged at any point during the financial year

For all off-payroll engagements between 1 April 2023 and 31 March 2024, for more than £245⁽¹⁾ per day

	Number
No. of temporary off-payroll workers engaged between 1 April 2023 and 31 March 2024	
Of which...	
No. not subject to off-payroll legislation ⁽²⁾	
No. subject to off-payroll legislation and determined as in-scope of IR35 ⁽²⁾	
No. subject to off-payroll legislation and determined as out of scope of IR35 ⁽²⁾	
the number of engagements reassessed for compliance or assurance purposes during the year	
Of which: no. of engagements that saw a change to IR35 status following review	

Note

(1) The £245 threshold is set to approximate the minimum point of the pay scale for a Senior Civil Servant.

(2) A worker that provides their services through their own limited company or another type of intermediary to the client will be subject to off-payroll legislation and the Department must undertake an assessment to determine whether that worker is in-scope of Intermediaries legislation (IR35) or out-of-scope for tax purposes.

Table 3: Off-payroll board member/senior official engagements

For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2023 and 31 March 2024

Number of off-payroll engagements of board members, and/or senior officers with significant financial responsibility, during the financial year ⁽¹⁾	
Total no. of individuals on payroll and off-payroll that have been deemed “board members, and/or, senior officials with significant financial responsibility”, during the financial year. This figure must include both on payroll and off-payroll engagements ⁽²⁾	

Note

(1) There should only be a very small number of off-payroll engagements of board members and/or senior officials with significant financial responsibility, permitted only in exceptional circumstances and for no more than six months

(2) As both on payroll and off-payroll engagements are included in the total figure, no entries here should be blank or zero

In any cases where individuals are included within the first row of this table the department should set out:

- Details of the exceptional circumstances that led to each of these engagements.
- Details of the length of time each of these exceptional engagements lasted.

Chapter 3 ICB Appendix 1: Additional Requirements for ICBs

3.215 In addition to the requirements set out in Chapter 3, ICBs are required to publish their full ARA in accordance with arrangements notified via the NHSE SharePoint. They may additionally produce and distribute a separate Performance Report: Overview with Supplementary Material, produced in accordance with this manual.

3.216 For ICBs the gender distribution must be analysed as follows:

- members of the governing body
- all other senior managers, including all managers at grade VSM, not included above, and
- all other employees not included in either of the previous two categories.

Business information

3.217 ICBs must ensure they include sufficient information on the delivery of their statutory duties to comply with the requirements of Section 14Z15 Paragraph 2 of the National Health Service Act 2006 (as amended) and the ICB Assurance Framework.

Details of Members of the Membership Body and Governing Body

3.218 The Report must provide:

- the member practices, forming the Membership Body, of the ICB
- the names of the Chair and Accountable Officer throughout the financial year and up to the signing of the ARA
- the composition of the Governing Body throughout the financial year and up to the signing of the ARA (including advisory and lay members)
- the names of the individuals forming the Audit Committee throughout the financial year and up to the signing of the ARA, and

- reference to the Remuneration Report for details of the membership of the Remuneration Committee, and the Governance Statement for details of and membership of all other Governing Body and Membership Body Committees.

Chapter 3 ICB Appendix 2 – Pension Disclosures

Introduction

3.219 For ICBs the correct classification of GPs on the Governing Body will drive the salary and pension disclosures required in the Remuneration Report.

3.220 Within the NHS Pensions Scheme there are two types of member:

- Practitioner, and
- Officer.

3.221 Practitioner covers medical, dental and some ophthalmic practitioners, who meet specific criteria.

3.222 In summary there are three types of medical Practitioner in NHS pension terms:

- a type 1 medical Practitioner is a GP Provider (GP partner, single–hander) who has entered into a GMS, PMS, or APMS contract
- a type 2 medical Practitioner is generally a salaried GP employed by a (GMS, PMS, or APMS) surgery, and
- a Locum Practitioner is a freelance GP locum who deputises or assists on a temporary basis in a surgery.

3.223 All of the above must be on the medical performers list and registered with the General Medical Council.

3.224 Their NHS Pensions Scheme Employing Authority is NHSE even for salaried GPs employed by a surgery.

3.225 Individuals not meeting the criteria to be classed as a Practitioner in NHS Pension terms are classed as an Officer.

3.226 Tables 1 and 2 which follow describe how the benefits received by the different governing body members must be disclosed.

Prior Year Comparatives

3.227 Where prior year disclosures do not comply with this guidance they must be restated, to allow meaningful comparison year on year. Narrative to explain the reason for restatement must be agreed with local auditors.

Table 1: Governing Body Member is a Medical Practitioner

Type of Contract	Contract of Service with individual	Contract for Service with individual	Contract with GP Practice/Surgery	Contract with Corporate Body
Employment Status	Employee	Off Payroll Worker		
Payment Route	Payroll	Accounts Payable*	Accounts Payable	
Eligible for NHS Pension	Yes			No
NHS Pension Status	Officer	Practitioner		n/a
NHS Pension Employing Authority	ICB	NHSE		n/a
Responsibility for Pension Contributions	ICB	Legal requirement on the ICB to deduct at source, as agent for NHSE	GP	n/a
Payment Method	As part of routine employee contributions to NHS Pensions	SOLO Form submitted to NHSE (PCS) together with pension payment due		n/a

Salary Disclosures	Full disclosure as per GAM	Gross payment to the individual disclosed in the salary column (including employer pension contributions, where relevant). All other columns £NIL. Note required below the salary table to explain the off-payroll payment arrangement, as per GAM requirement.
Off Payroll Worker Disclosures	n/a	Include as per GAM guidance. Confirmation of regularity of tax arrangements and tax payments required, as per GAM guidance.
Pension Disclosures	Full disclosure as per GAM. Request information from NHS Pensions in line with Greenbury process.	Off payroll worker – no pension disclosure required. Exclude from the pensions table. Include a note under the pension table to explain why some individuals included in the salary table are not included in the pension table.

* Please note that HMRC typically deem services provided directly to fulfil the role of Governing Body Member as being those of an “office holder”. For payments relating to these services, the “office holder” should typically be treated as an employee, with deduction at source through the payroll for taxation and national insurance payments. ICBs should liaise with their local HMRC contact in case of query.

On occasions HMRC may deem long term contract for service holders as ‘office holders’ of the organisation, and require the organisation to deduct income tax and national insurance at source. This designation does not change their employment status with the ICB (as an off-payroll worker rather than an employee of the ICB) but is merely a route for HMRC to collect tax and national insurance ‘in-year’ rather than 10 months after the year end.

In this situation the deduction of tax and national insurance would be processed via ESR, and the resulting deduction paid over in the normal way. An Officer Pension record must NOT be created in ESR and Officer Pension must NOT be deducted via payroll. Practitioner Pension must continue to be deducted ‘off-system’ and paid over using the SOLO Form. The individual remains an off-payroll worker.

Table 2: Governing Body Member is not a Medical Practitioner

Type of Contract	Contract of Service with individual	Contract for Service with individual	Contract with Corporate Body
Employment Status	Employee	Off Payroll Worker	
Payment Route	Payroll	Accounts Payable*	Accounts Payable
Eligible for NHS Pension	Yes	No	
NHS Pension Status	Officer	n/a	
NHS Pension Employing Authority	ICB	n/a	
Responsibility for Pension Contributions	ICB	n/a	
Payment Method	As part of routine employee contributions to NHS Pensions	n/a	
Salary Disclosures	Full disclosure as per GAM	Gross payment to the individual disclosed in the salary column. All other values £NIL. Note required below the salary table to explain the off-payroll payment arrangement, as per GAM requirement.	
Off Payroll Worker Disclosures	n/a	Include as per GAM guidance. Confirmation of regularity of tax arrangements and tax payments required, as per GAM guidance.	
Pension Disclosures	Full disclosure as per GAM. Request information from NHS Pensions in line with Greenbury process.	Off payroll worker – no pension disclosure required. Exclude from the pensions table. Include a note under the pension table to explain why some individuals included in the salary table are not included in the pension table.	

* Please note that HMRC typically deem services provided directly to fulfil the role of Governing Body Member as being those of an “office holder”. For payments relating to these services, the “office holder” should typically be treated as an employee, with deduction at source through the payroll for taxation and national insurance payments. ICBs should liaise with their local HMRC contact in case of query.

On occasions HMRC may deem long term contract for service holders as ‘office holders’ of the organisation, and require the organisation to deduct income tax and national insurance at source. This designation does not change their employment status with the ICB (as an off-payroll worker rather than an employee of the ICB) but is merely a route for HMRC to collect tax and national insurance ‘in-year’ rather than 10 months after the year end.

In this situation the deduction of tax and national insurance would be processed via ESR, and the resulting deduction paid over in the normal way. A pension record must therefore NOT be created and pension must NOT be deducted. The individual remains an off-payroll worker.

4. Accounting principles and policies

Applicability of IFRS

- 4.1 As set out from paragraph 2.10, DHSC group bodies are required to prepare accounts in accordance with IFRS, as adopted in HM Treasury's Financial Reporting Manual (FReM).

Adaptations and interpretations

- 4.2 Where appropriate, the FReM adapts and interprets IFRS for the public sector context.
- 4.3 This may be necessary where IFRS Standards address issues that are less relevant to public sector bodies, or where they do not adequately take account of public sector considerations.
- 4.4 [Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group](#) provides a full list of applicable standards, together with any adaptations and interpretations.

Accounting standards not yet adopted

- 4.5 IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors requires entities to disclose details where they have not applied a new IFRS Standard that has been issued but is not yet effective.
- 4.6 [Chapter 4 Annex 2: IFRS Standards and amendments issued but not yet adopted in the FReM](#) provides a list of such standards.
- 4.7 DHSC group bodies must not adopt a new accounting standard before its effective date unless indicated otherwise in this manual.

Departures from the FReM

- 4.8 In addition to the adaptations and interpretations to IFRS set out in the FReM, HM Treasury has permitted DHSC group bodies to depart from the FReM in a small number of areas.

- 4.9 Details of these departures, and the entities to which they apply, are set out [in Chapter 4 Annex 3: Departures from the FReM.](#)

Accounting Concepts

- 4.10 The financial reporting framework establishes various fundamental concepts on which a set of accounts should be based. The following paragraphs provide more information on the principal concepts.
- 4.11 The Conceptual Framework for Financial Reporting sets out the principles that the IASB believes should underlie the preparation and presentation of financial statements for users.
- 4.12 The preparers of ARAs should familiarise themselves with these principles, particularly as the framework updated and approved by the IASB in March 2018 introduces, re-introduces and revises various concepts preparers need to consider.

True and fair view

- 4.13 The financial statements must give a true and fair view of the state of affairs of the reporting body at the end of the financial year and of the results of the year.
- 4.14 Section 393 of the Companies Act 2006 requires that directors must not approve accounts unless they are satisfied that they give a true and fair view.
- 4.15 In applying section 393, any reference to 'company' should be read to mean 'DHSC group body' and for ICBs 'director' to mean 'Governing Body Member'.
- 4.16 References to 'present fairly' and 'fair presentation' in IAS 1, Presentation of Financial Statement should be taken to have the same meaning as 'true and fair' in the Companies Act 2006.

Accounting convention

- 4.17 The financial statements are prepared under the historical cost convention modified by the revaluation of non-current assets and, where material, current asset investments and inventories, and certain financial assets and liabilities, to fair value as determined by the relevant accounting standards, and subject to the interpretations and adaptations of those standards made in the FReM.

Going concern

- 4.18 The FReM notes that in applying paragraphs 25 to 26 of IAS 1, preparers of financial statements should be aware of the following interpretations of Going Concern for the public sector context.
- 4.19 For non-trading entities in the public sector, the anticipated continuation of the provision of a service in the future, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence of going concern.
- 4.20 A trading entity needs to consider whether it is appropriate to continue to prepare its financial statements on a going concern basis where it is being, or is likely to be, wound up.
- 4.21 Sponsored entities whose statements of financial position show total net liabilities must prepare their financial statements on the going concern basis unless, after discussion with their sponsor division or relevant national body, the going concern basis is deemed inappropriate.
- 4.22 Where an entity ceases to exist, it must consider whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern in its final set of financial statements.
- 4.23 While an entity will disclose its demise in various areas of its Annual Report and Accounts such as in the Performance Report and cross reference this in its going concern disclosure, this event does not prevent the accounts being prepared on a going concern basis or give rise to a material uncertainty in relation to the going concern of the entity.
- 4.24 DHSC group bodies must therefore prepare their accounts on a going concern basis unless informed by the relevant national body or DHSC sponsor of the intention for dissolution without transfer of services or function to another entity.
- 4.25 Where a DHSC group body is aware of material uncertainties in respect of events or conditions that may bring into question the going concern ability of the entity, these uncertainties must be disclosed.
- 4.26 As the continued provision of service approach, per paragraph 4.22, applies to DHSC group bodies, material uncertainties requiring disclosure, will only arise in very exceptional circumstances.

- 4.27 Should a DHSC group body have concerns about its “going concern” status (and this will only be the case if there is a prospect of services ceasing altogether), or whether a material uncertainty is required to be disclosed (which will only arise in exceptional circumstances), it must raise the issue with its sponsor division or relevant national body as soon as possible.
- 4.28 Consideration of risks to the financial sustainability of the organisation is a separate matter to the application of the going concern concept. Determining the financial sustainability of the organisation requires an assessment of its anticipated resources in the medium term. Any identified significant risk to financial sustainability is likely to form part of the risks disclosures included in the wider performance report, but is a separate matter from the going concern assessment.

Gross and Net accounting

- 4.29 The overarching principle is that transactions must be accounted for in accordance with accounting standards, with all treatments having been agreed by both parties.
- 4.30 Generally, this means revenue income and expenditure must be recorded gross unless one party is acting solely as an agent.
- 4.31 "Gross accounting" refers to the separate recording of inflows and outflows in an entity's accounts, recognising the impact on the entity's income and expenditure.
- 4.32 "Net accounting" refers to the netting off of inflows and outflows in an agency relationship, so that the entity only recognises impacts to the extent that it is acting as a principal.
- 4.33 An organisation is acting as an agent if its performance obligation is to arrange for the provision of a specified good or service by another party. It does not control that good or service before it is transferred to the customer.
- 4.34 For example, in the case of staff secondments, if the parent organisation is primarily responsible for the work the secondee carries out for the host organisation, including providing a substitute in the event of sickness, then the parent is acting as a principal. Both parties must therefore use gross accounting.
- 4.35 On the other hand, if the host organisation is primarily responsible for the secondee's work, and provides its own substitute in the event of sickness, then the parent does not control the services of the secondee and is acting as an agent. Both organisations must therefore use net accounting.

- 4.36 To avoid mismatches during the agreement of transactions and balances process, it is important that each arrangement is assessed individually against the relevant accounting standards and that the treatment is agreed between parties.
- 4.37 In particular, if net accounting is used by a commissioning or intermediary organisation, the ultimate purchaser and supplier will need to be told against whom to record the transactions to ensure these will net out on consolidation. Further specific guidance on agreement of balances is published for the Q2, Q3 and Q4 (year-end) agreement exercises.

Users of the annual report and accounts

- 4.38 The information presented in the financial statements must be adequate for the needs of the key users of the financial statements.
- 4.39 Users include, but are not limited to:
- an NHS foundation trust's council of governors
 - members of an NHS foundation trust
 - patients and their carers
 - Parliament, including relevant Select Committees
 - NHSE and other regulatory bodies
 - the Department of Health and Social Care
 - HM Treasury
 - boards of directors and audit committees
 - local authorities
 - health and well-being boards
 - Sustainability and Transformation Partnerships (STPs)
 - commissioners, and
 - the taxpayer.

Accounting policies and materiality

- 4.40 DHSC group bodies must adopt accounting policies which provide the most relevant and reliable information on completion of the annual accounts, taking note of [Chapter 5 Annex 1: Example accounting policies](#) and related versions provided by the relevant national bodies.
- 4.41 Policies must be consistent with any group-wide accounting policies specified in this manual.
- 4.42 IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors notes that accounting requirements in IFRS Standards need not be applied to immaterial items, but also notes in paragraph 8 that “it is inappropriate to make, or leave uncorrected, immaterial departures from IFRS to achieve a particular presentation of an entity’s financial position, financial performance or cash flows”.
- 4.43 Similarly, IAS 1, Presentation of Financial Statements notes that specific disclosure requirements of IFRS need not be satisfied if the information is not material. Both IAS 1 and IAS 8 define materiality as follows:
- "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."
- 4.44 Entities should refer to IFRS Practice Statement 2: Making Materiality Judgements, issued in September 2017, for further guidance on materiality.
- 4.45 In the absence of a specific IFRS Standard or Interpretation, paragraphs 10 to 12 of IAS 8 describe the approach that management should take to formulating an accounting policy, including the hierarchy of guidance to which it should refer.
- 4.46 Entities must consult national bodies or the relevant DHSC sponsor about any novel or contentious accounting policies they might propose to adopt to reflect their specific circumstances.
- 4.47 Where entities consider it necessary to adjust retrospectively for changes in accounting policies or material errors, they must first consult national bodies or the relevant DHSC sponsor to ensure that the budgeting implications have been properly considered.

Errors in the financial statements

- 4.48 All material errors identified in a previous year's financial statements must be corrected through a prior period adjustment except to the extent that, it is impracticable to determine either the period-specific effects or the cumulative effect of the error.
- 4.49 Further information regarding prior period adjustments can be found in paragraph 4.57.

Changes in accounting policy

- 4.50 An entity may change an accounting policy only where it is required by a new IFRS Standard or Interpretation (including any revisions to this manual) or voluntarily only if it results in the financial statements providing reliable and more relevant information about transactions, events, conditions, or the entity's financial position, financial performance or cash flows.
- 4.51 Changes in accounting policy arising from the introduction of a new IFRS Standard or Interpretation must be implemented in accordance with the specific transitional provisions, if any, of that Standard or Interpretation.
- 4.52 Where no such specific transitional provisions exist, or where an accounting policy is changed voluntarily, the change must be applied retrospectively, i.e. through a prior period adjustment.
- 4.53 IAS 8 requires that prior period adjustments must be effected by restating each element of equity (reserves) at the start of the prior year as if the accounting policy had always applied.
- 4.54 Any difference between the reported financial results and the adjusted financial results must be reported, as described in the Standard. The restatement must be replicated in the relevant sections of the summarisation schedules.
- 4.55 Where an entity has to make a prior period adjustment (for any reason other than an adjustment required by the GAM), they must inform the relevant sector finance lead so that the appropriate information can be collected for consolidation.
- 4.56 Further information on prior period adjustments can be found below.

Prior period adjustments (PPAs)

- 4.57 In preparing the DHSC group accounts, the DHSC must make a distinction between:

- those PPAs which will require restatement of the consolidated accounts including, but not limited to, changes in accounting policy, machinery of government changes, errors material to the consolidated accounts, and
- PPAs requiring local restatement under IAS 8, which may include, but are not limited to, errors material to the entity (but not consolidated) accounts.

4.58 In the case of PPAs other than errors, the FReM and this manual will usually prescribe the appropriate handling arrangements, and DHSC will issue detailed guidance on any restatement of consolidated accounts and the collection of restated data via summarisation schedules where appropriate, even if immaterial at a local body level.

4.59 In the case of PPAs that are material locally, but not nationally, the consolidated accounts will not be restated.

4.60 The effect of PPAs in local accounts will therefore be recorded 'in year' in the consolidated accounts, with a corresponding adjustment between the local accounts and the data consolidated for that entity.

4.61 Where an entity considers that a prior year error is not material and does not require restatement, it must adjust for the cumulative effect of the error in the current year, reflecting any impact for income and expenditure as appropriate.

4.62 It may not take income and expenditure adjustments directly to retained earnings.

Impact for bodies other than NHS providers

4.63 Where PPAs appear in local statutory accounts but are not material to the consolidated accounts, these PPAs will not be reflected in the brought-forward balances in the summarisation schedules.

4.64 Entities will therefore need to enter opening balance adjustments where relevant in the summarisation schedules to resolve any differences compared with their own restated accounts.

4.65 Subsequent entries for the current financial year should therefore match the local accounts.

4.66 To enable DHSC to identify the nature and impact of local PPAs and ensure these are reflected appropriately in the current year in the consolidated accounts, the summarisation schedules require entities to provide additional analysis of any opening balance adjustments.

Impact for NHS providers only

- 4.67 NHS trusts and foundation trusts must ensure that the summarisation schedules submitted to NHSE are always consistent with their accounts.
- 4.68 NHS providers must therefore apply IAS 8 to both their accounts and summarisation schedules but must explain any PPAs in the PPA tab of the schedule.
- 4.69 This enables NHSE to recategorise the PPA upon consolidation and reporting to DHSC.

Accounting for Income and Expenditure

- 4.70 The main relevant standards for income are 'IFRS 15, Revenue from Contracts with Customers' and IAS 20, Accounting for Government Grants and Disclosure of Government Assistance.
- 4.71 Entities that receive Parliamentary Funding (special health authorities and DHSC agencies) or receive Grant-in Aid (DHSC NDPBs) must separate these funding streams from general income as it is possible to receive cash from DHSC in either or both categories. This also applies to funding from NHSE received by ICBs.
- 4.72 The FReM (11.1.1) details those items that must be dealt with through the General Fund and not as income. A rule of thumb is that entities will recognise income where it delivers a specific service or provides goods to customers, using usual order and invoicing systems.
- 4.73 IFRS 15 requires entities to recognise revenue from contracts with customers when they satisfy a performance obligation by transferring a promised good or service.
- 4.74 Performance obligations can be satisfied over time or at a point in time. For a performance obligation satisfied over time, the corresponding revenue is also recognised over time. Otherwise, the revenue may only be recognised at the point the performance obligation is satisfied in full.
- 4.75 IFRS 15 paragraph 35 states that a performance obligation is satisfied over time if:
- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs
 - the entity's performance creates or enhances an asset that the customer controls as it is created or enhanced, or

- the entity's performance does not create an asset for which it has an alternative use and the entity has an enforceable right to payment for performance to date.
- 4.76 IFRS 15 paragraphs B2 to B8 assist with identifying what is entailed by each of the criteria listed above.
- 4.77 Of note should be the guidance provided where an entity may find it difficult to identify whether an obligation satisfies the first criteria (IFRS 15, B4). In such instances it should be determined that an obligation is satisfied over time if an entity would not need to substantially re-perform the work completed to date, to fulfil the remaining obligation to the customer.
- 4.78 If a performance obligation is not satisfied over time, then it is satisfied at a point in time.
- 4.79 A performance obligation relating to delivery of a spell of healthcare is likely to be satisfied over time as healthcare is received and consumed simultaneously by the customer as the entity performs it. Even if identification is not readily available as per B4 of the Standard, healthcare would be consistent with the consideration made in paragraph 4.76 above.
- 4.80 Healthcare generally aligns with paragraph 22 (b) of the Standard entailing a delivery of a series of distinct goods or services that are substantially the same and have a similar pattern of transfer.
- 4.81 When accounting for revenue from contracts with customers, DHSC group bodies must apply the following interpretations to IFRS 15:
- Upon transition, the option to restate using IAS 8 has been withdrawn. Entities must recognise the difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening general fund / income and expenditure reserve within taxpayers' equity (or other component of equity, as appropriate). In using this transition approach, it is identified that;
 - The election to apply this Standard retrospectively only to contracts not completed at the date of initial application must be exercised.
 - The practical expedient available for contract modifications must be exercised (paragraph C7A of the Standard, removes the need to retrospectively restate any contract modifications that either occurred before the beginning of the earliest period presented, or for all modifications occurring before the date of initial application)
- 4.82 Additionally, IFRS 15 is adapted as follows:

- The definition of a contract is expanded to include legislation and regulations which enables an entity to receive cash or another financial asset from another entity that is not classified as a tax by ONS. The costs of preparing the legislation or regulations do not amount to assets under IFRS 15 (91-94).
- Where, by statute or approval from HM Treasury, an entity is permitted to retain the revenue from taxation, fines and penalties, this revenue shall be accounted for under IFRS 15 paragraph 15a,

However, where entities receive revenue through taxation, fines and penalties which is wholly non-refundable and leads to no obligations, entities are not required to wait until all, or substantially all, of the promised revenue has been received to recognise the revenue. In these instances, entities should recognise revenue when an equivalent to a taxable event has occurred, the revenue can be measured reliably, and it is probable that the assisted economic benefits from the taxable event will flow to the collecting entity. All these elements are required to be satisfied.

- 4.83 The above adaptations will require entities to carefully consider the existence of legislation or regulation in governing the satisfaction of performance obligations of its customers.
- 4.84 To assist in application of IFRS 15 a number of in scope revenue streams are discussed below. This list is not exhaustive of the revenue streams in existence across the DHSC group.
- 4.85 The below provides application guidance in adopting IFRS 15 in full, with the adaptations and interpretations presented above.
- 4.86 Entities are required to consider all revenue streams in line with IFRS 15 as appropriate.
- 4.87 Further [IFRS 15 application guidance](#) has been published by HM Treasury.

Injury costs recovery (ICR) revenue

- 4.88 [ICR revenue](#) must be accrued only when form NHS2 has been received and it has been confirmed from the NHS provider's records that injury treatment has been given. If there are discrepancies that need investigating, income must not be accrued.
- 4.89 The expansion of the definition of a contract mentioned in paragraph 4.48 ensures that ICR revenue must be recognised in line with IFRS 15.

- 4.90 The above process of revenue recognition is viewed to be compliant with the Standard as the 'contract' can only be identified as per paragraph 9 (a) to (e) of the Standard, when the NHS2 form is received by the provider. Prior to this there is no ability to identify payment terms (Paragraph 9(c)) or that consideration will be received relating to ICR (Paragraph 9(e)).
- 4.91 The form completion and confirmation of no discrepancies arising constitutes the performance obligation for this revenue stream.
- 4.92 It is IFRS 15 compliant to recognise the revenue on satisfaction of this obligation and to not accrue where discrepancies have arisen.
- 4.93 The obligation is satisfied at a point in time, in virtue of ICR not satisfying one of the three 'over time' criteria identified in paragraph 35 of the Standard. As per paragraph 38 of the Standard, when an obligation is satisfied at a point in time the satisfaction occurs when control is transferred.
- 4.94 Control includes obtaining benefit from an asset which can include potential cash flows. As such revenue should be recognised when inflow of cash flows can be expected which is when there are no discrepancies arising from the NHS2 form.
- 4.95 Each year, the Compensation Recovery Unit (CRU) advises a percentage probability of not receiving the income, which should be included within the provision for impairment of receivables. For 2022-23 this figure was 24.86%. This figure will be updated for 2023-24 later in the year in an amendment to the GAM.
- 4.96 This aligns to the IFRS 9 simplified approach to impairments, in which a loss allowance equal to the lifetime expected credit losses, must be recognised for contract assets (accrued income) that do not contain a significant financing component. See [Chapter 4 Annex 6: Financial Instruments](#) for more detail.
- 4.97 Where NHS providers are in a position to make a reliable estimate of their own provision percentage they should use their own local information to inform the provision, ensuring any loss allowance reflects the IFRS 9 simplified approach referenced above.

Partially completed treatments spells and maternity pathway transactions

- 4.98 Where NHS providers and ICBs transact via block contract arrangements, the provider's entitlement to income does not vary based on the treatment of individual patients. As such, no partially completed spells balances are expected to arise at the year end.

- 4.99 [Chapter 4 Annex 10: Accounting for Maternity Pathways](#) of the GAM provides guidance on accounting where the maternity pathway is in operation. Where this is not in operation as a payment mechanism, this guidance will not apply and no prepayments / deferrals will arise.

Maternity Incentive Scheme (MIS)

- 4.100 The [MIS](#) supports the delivery of safer maternity care through the inclusion of an incentive element to contributions to the Clinical Negligence Schemes for Trusts (CNST).
- 4.101 Where a trust has successfully demonstrated compliance against the 10 safety actions, it will recover its element of CNST contribution that went in to the maternity incentive fund, plus a share of any unallocated funds.
- 4.102 Trusts unable to evidence sufficient compliance with the 10 actions may be able to recover a lesser sum from the fund.
- 4.103 As NHS Resolution (NHSR) is not deemed a customer in this arrangement, the monies received from the scheme are considered out of scope of IFRS 15 per paragraph 6 of the Standard.
- 4.104 Trusts should offset the receipt of monies under the MIS against its CNST contributions. This is consistent with the rules for offsetting in IAS 1 paragraph 33.
- 4.105 In accordance with the principles of the Conceptual Framework, trusts will only be expected to recognise any award from the incentive fund when it can be measured reliably. This is to be interpreted as when NHSR has confirmed the award amount payable to the trust. This interpretation includes instances in which appeals are being considered.

Investment revenue

- 4.106 IFRS 16, Leases and IFRS 7, Financial Instruments: Disclosures, paragraph 20(b) require the disclosure of interest and other income arising from investments.

Profits and losses on disposal of non-current assets

- 4.107 As set out in IAS 1, Presentation of Financial Statements paragraph 98(c) and (d), where non-current assets are disposed of, but the activities which they supported are continuing, then any profit or loss on disposal must be recognised in income or expenses as appropriate.

4.108 Where the asset has been disposed of as part of the disposal or discontinuance of an activity, then any profit or loss on disposal must be shown on the face of the SoCNE within the amount for “Surplus/(deficit) of discontinued operations and the gain/(loss) on disposal of discontinued operations”. See paragraphs 5.124 to 5.126 for the definition of continuing/discontinued operations and paragraphs 4.168 to 4.182 for further guidance on asset valuation and revaluation of surplus assets.

Sale and leaseback transactions

4.109 IFRS 16 governs arrangements where a seller transfers an asset to another entity and leases the asset back from the buyer. Both parties are required to apply paragraphs 99 to 103 of the Standard.

4.110 IFRS 16 requires entities to assess whether a performance obligation is satisfied to determine whether the transfer is accounted for as a sale. Where the sale satisfies the requirements of IFRS 15:

- The seller-lessee measures the right of use asset at the proportion of the previous carrying amount that relates to the right of use retained by the seller-lessee; and
- The buyer-lessor shall account for both the purchase applying the appropriate standards and the lease as a lessor arrangement per IFRS 16.

4.111 Where either the sale is below fair value or the leasing arrangement below market rates, adjustments are required to measure the proceeds at fair value.

4.112 Below market terms are to be accounted for as a prepayment of lease payments and above market terms shall be accounted for as additional financing provided by the buyer to the seller.

4.113 The adjustment must be measured with reference to the more determinable of the consideration of the sale as compared to the fair value of the asset or the difference between the lease payments and the market rate equivalent.

4.114 If the transaction does not meet the sale recognition requirements of IFRS 15, the seller shall continue to recognise the asset and will recognise a financial liability equal to the proceeds and the buyer will recognise a financial asset equal to the proceeds, but will not recognise the transferred asset.

4.115 It is the substance of the arrangement that determines whether IFRS 15 and 16 or IFRS 9 are applied to a sale and leaseback transaction.

4.116 Additional information relating to sale and leaseback transactions may be required to satisfy the disclosure objective in IFRS 16.

Other gains and losses

- 4.117 IFRS 7, Financial Instruments: Disclosures paragraph 20 requires the disclosure of income and expenditure arising from financial instruments. Further guidance on financial instruments is provided in [Chapter 4 Annex 6: Financial Instruments](#).

Government grants (IAS 20) and donations

- 4.118 DHSC group bodies must apply IAS 20, Accounting for Government Grants and Disclosure of Government Assistance to the treatment of government and other grants, with the following interpretations.
- 4.119 The option in IAS 20 to offset a grant for acquisitions of an asset against the cost of the asset has been withdrawn.
- 4.120 The option in IAS 20 to defer grant income relating to an asset is restricted to income where the funder imposes a condition.
- 4.121 Where assets are financed by government grant, the funding element is recognised as income through the Statement of Comprehensive Net Expenditure (SoCNE) / Statement of Comprehensive Income (SoCI).
- 4.122 To defer this income, a condition imposed by the funder must be a requirement that the future economic benefits embodied in the grant are consumed as specified by the grantor or must be returned to them.
- 4.123 A grant for an asset may be received subject to a condition that it is to be returned to the grantor if a specified future event does or does not occur. For example, a grant may need to be returned if the entity ceases to use the asset purchased with that grant for a purpose specified by the grantor.
- 4.124 In such cases, a return obligation does not arise until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such a condition would not therefore require the grant to be treated as deferred income.
- 4.125 Grant-in-aid is provided to match the recipient's cash needs and is to be accounted for on a cash basis. Any exceptions to this treatment must be agreed by DHSC and HM Treasury.
- 4.126 Note that Parliamentary supply and grant-in-aid are forms of financing and do not fall within the meaning of government grants.

- 4.127 DHSC group bodies must account for donations by applying the same principles as for government grants above.
- 4.128 Where an NHS provider consolidates NHS charitable funds, donations received from those funds will be eliminated on consolidation in the local group accounts.
- 4.129 Where a group body is a member of the EU Greenhouse Gas Emission Allowance Trading scheme and it has been issued allowances at less than fair value or current value in existing use then the difference between the amount paid and the fair value or current value in existing use represents a government grant that is subject to a condition, as per the interpretation of IAS 20. The income element must be deferred and released to income as the liability to emit greenhouse gases is recognised in expenses.
- 4.130 Credits arising from receipt of grants and donations are taken to the SoCNE / SoCl.

Donation of centrally procured items for COVID-19 pandemic response

- 4.131 A number of items have been centrally procured by DHSC and other national bodies and provided to trusts free of charge. Such items include personal protective equipment, ventilators and other medical equipment.
- 4.132 Items received by trusts should be considered a transfer of resources akin to a 'government grant relating to income' in IAS 20 and follow established accounting for donated assets.
- 4.133 Therefore, a non-cash gain is recognised equivalent to the value of the items received for no consideration. Items such as ventilators and other medical equipment should be capitalised on receipt, consistent with this policies of this Manual and where such equipment is below capitalisation thresholds, an amount equivalent to the non-cash gain is taken to expenses. For personal protective equipment the treatment by trusts should be consistent with the approach to accounting for consumables i.e. held as inventory or may be charged to expenses where not material.
- 4.134 Normally, where grants are provided by DHSC to a group body, as the entity's controlling party, group bodies should regard those grants as financing, The FReM however allows for the Department to approve alternative treatment.
- 4.135 NHSE have issued further detailed [guidance for accounts](#) to describe the practical operationalisation of the approach and provide accounting information as to how appropriate valuations and market prices have been derived and their impact for impairment purposes at year end.

- 4.136 In relation to donations of items and equipment in relation to the pandemic response, such arrangements should not be classified as a gift per Annex 4.12 of Managing Public Money.
- 4.137 Transactions which do not score as gifts includes grants in kind that are part of a planned programme of HMG support for an organisation. The central procurement and onward distribution of items as part of the pandemic response are clearly part of planned programme of HMG support.
- 4.138 Moreover, the government receives value in the furtherance of its policy objective in its the pandemic response and the purchase and distribution of items for the pandemic response, is funded through the Estimate and thus per A4.12.2 of Managing Public Money such donations do not constitute a gift.

Retirement benefits

- 4.139 Retirement benefits must be accounted for in accordance with IAS 19, Employee Benefits. [As set out in Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group](#), IAS 19 is interpreted to require the NHS Pensions Scheme, the Principal Civil Service Pension Scheme and the Civil Servant and Other Pension Scheme (known as 'alpha') to be accounted for as defined contribution schemes.
- 4.140 DHSC group bodies paying in to these schemes must therefore recognise an expense equal to their employer contribution to the scheme during the year.
- 4.141 Where DHSC group bodies are members of other defined benefit schemes, they will need to assess whether these schemes should be accounted for as defined benefit schemes or as defined contribution schemes.
- 4.142 Where defined benefit schemes have a minimum funding requirement, this may affect the amount of any net asset which the DHSC group body can recognise when the scheme is in surplus.
- 4.143 IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction provides guidance on any adjustments required to the asset in these circumstances.

Termination benefits

- 4.144 Termination benefits include, for example, redundancy costs, termination gratuities and pension enhancements on termination.
- 4.145 Termination benefits are only those benefits where the event giving rise to the benefit is the termination of the employment by

- the employer, or
 - an employee deciding to accept the employer's offer of benefits in exchange for termination.
- 4.146 Benefits that are conditional on future service by an employee are not termination benefits.
- 4.147 Termination benefits are recognised at the earlier of:
- when the entity can no longer withdraw the offer of those benefits, and
 - when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

Apprenticeship Levy

- 4.148 The Apprenticeship Levy is a levy introduced by the UK Government on 6 April 2017, requiring all employers operating in the UK, with a pay bill over £3 million each year, to invest in apprenticeships. Affected employers are required to pay a levy of 0.5% of their pay bill, less an allowance of £15,000.
- 4.149 Employers will then be able to access funding for apprenticeships through an account on the digital apprenticeship service. These funds will be used to make payments directly to approved training providers.
- 4.150 The Government has published [guidance for employers on how the Apprenticeship Levy works](#).
- 4.151 Apprenticeships are a devolved policy, and different arrangements apply in each part of the UK. Employers in England will not be able to access funding in respect of their employees that live outside England.
- 4.152 The Department for Education is the lead department for the Apprenticeship Levy, and has developed accounting guidance to be followed by all central government bodies in England. This guidance is adopted in this manual, and DHSC group bodies must follow the requirements set out below.
- 4.153 There are two aspects to the treatment of the levy in local accounts:
- Recognition of the initial levy payment
 - Recognition of the receipt of the associated training grant.

Recognising the levy payments

- 4.154 There is no accounting standard that directly applies to the levy charge. As such, accounting for the levy defaults to IAS 1, Presentation of Financial Statements and the overarching IASB Conceptual Framework for Financial Reporting.
- 4.155 Bodies subject to payment of the levy will see an outflow of assets when cash is paid over under the terms of the levy. The levy can therefore be treated as an expense under the definition set out in the Conceptual Framework.
- 4.156 The nature of the expense has been confirmed to be a tax, surrenderable to the Consolidated Fund, and as such the levy must be recognised as an additional social security cost within the financial statements.
- 4.157 HM Treasury has determined that the use of virtual accounts to hold the levy paid over for 24 months does not support the need to recognise a prepayment in the financial statements.
- 4.158 As the levy has tax status there should be no recognition of such prepayments for expected future utilisation of the training aspect. The expenditure must be recognised in the period in which it arose.
- 4.159 Any portion of the levy not yet paid over at the period end must be recognised as a social security liability in line with other social security expenditure not yet paid over to the relevant tax authority.

Benefits arising from apprentice training

- 4.160 It is expected that apprenticeship funding arising from the scheme will be passed directly to training providers. Consequently, there will be different accounting treatments dependent upon whether the employer is a training provider.
- 4.161 If the employer is not a training provider, but benefits from the scheme via an employee receiving levy funded training, it remains necessary to recognise the value of the levy-funded training received. The portion of the employees' training funded by this scheme must therefore be recognised as a non-cash expense in the period in which the training occurs.
- 4.162 To ensure that performance is neutral, an additional non-cash income amount equal to the costs paid directly to the training provider must also be recognised. This income must be accounted for in accordance with IAS 20, Accounting for Government Grants and Disclosure of Government Assistance.
- 4.163 If the employer is itself an accredited training provider, then it will receive cash payment for its training activities. Again, this income is accounted for in

accordance with IAS 20. Expenditure incurred in delivering training is accounted for in the usual way.

Climate Change Levy (CCL)

- 4.164 The levy is the successor scheme to the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme allowances.
- 4.165 There is no accounting standard that directly applies to the levy charge. As such, accounting for the levy defaults to IAS 1, Presentation of Financial Statements and the overarching IASB Conceptual Framework for Financial Reporting.
- 4.166 Bodies subject to payment of the levy will see an outflow of assets when cash is paid over under the terms of the levy. The levy can therefore be treated as an expense under the definition set out in the Conceptual Framework.

Accounting for Assets and Liabilities

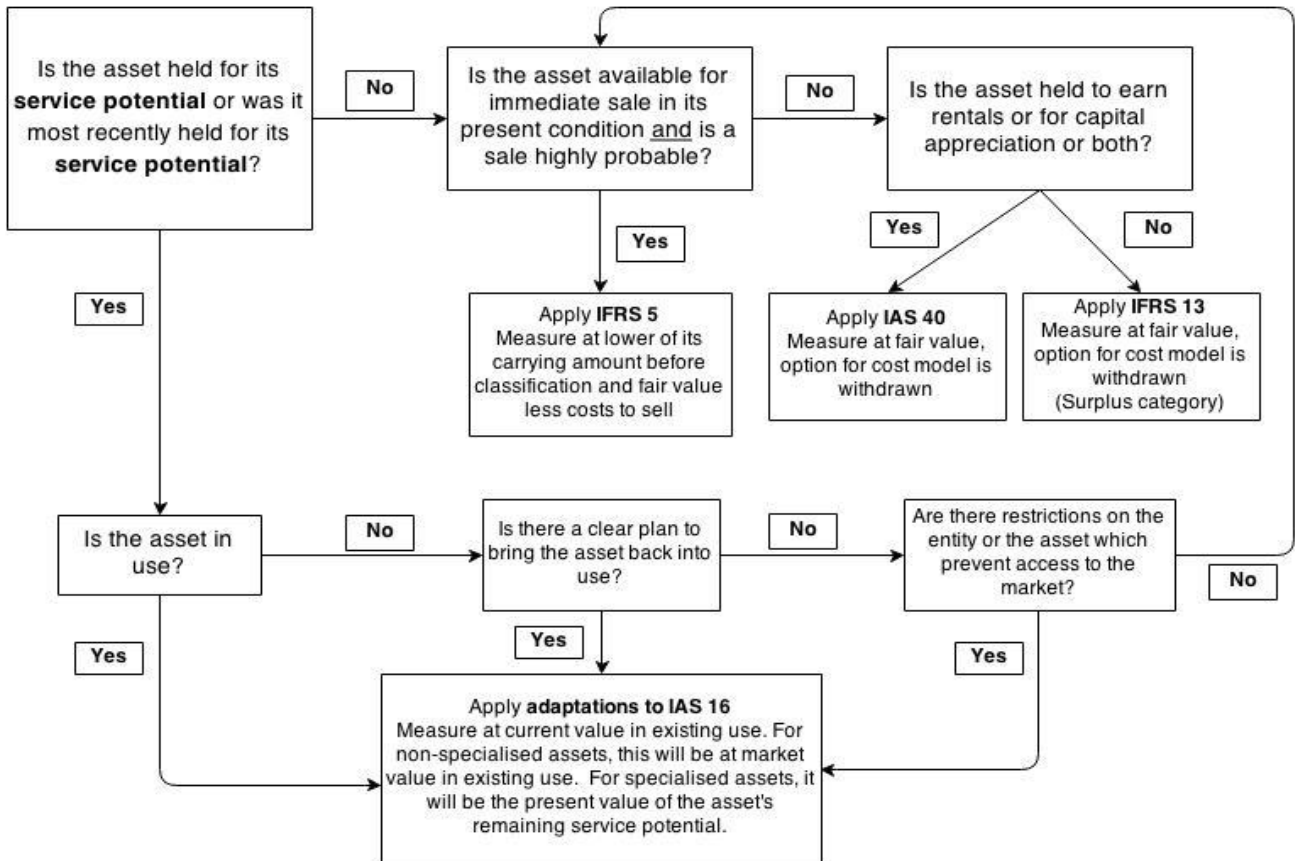
Property, plant and equipment (PPE)

- 4.167 The main relevant standards are IAS 16, Property, Plant and Equipment, IFRS 5, Non-current Assets Held for Sale and Discontinued Operations and IFRS 13, Fair Value.

Valuation

- 4.168 DHSC group bodies are required to follow the revaluation model. In this guidance, [Chapter 4 Annex 4 - Valuation Issues](#) discusses revaluation issues in the DHSC group context.
- 4.169 IFRS 13, Fair Value, is adopted in full in the public sector; however, IAS 16 and IAS 38 have been adapted and interpreted for the public sector context to limit the circumstances in which a valuation is prepared under IFRS 13 ([see Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group](#)).
- 4.170 Assets which are held for their service potential and are in use (i.e. operational assets used to deliver either front line services or back office functions) must be measured at their current value in existing use.
- 4.171 For non-specialised assets, current value in existing use must be interpreted as market value in existing use which is defined in the Royal Institution of Chartered Surveyors (RICS) Red Book as Existing Use Value (EUV).

- 4.172 Where non-property assets are short-lived, or are of low value (or both) it is acceptable for such assets to be carried at depreciated historical cost as a proxy for current value in existing use. Where this is the case, this fact must be disclosed, including the classes of assets where it has been used (where appropriate), the reasons why, and information about any significant estimation techniques (where applicable).
- 4.173 For depreciated historical cost to be considered as a proxy for current value in existing use, the useful life must be a realistic reflection of the life of the asset and the depreciation method used must provide a realistic reflection of the consumption of that asset class
- 4.174 For specialised assets, current value in existing use must be interpreted as the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential. The methodology used will be depreciated replacement cost on a modern equivalent asset basis.
- 4.175 Assets which were most recently held for their service potential but are surplus must be valued at current value in existing use if there are restrictions on the entity or the asset which would prevent access to the market at the reporting date.
- 4.176 If the entity can access the market, then the surplus asset must be valued at fair value using IFRS 13.
- 4.177 In determining whether such an asset which is not in use is surplus, management must assess whether there is a clear plan to bring the asset back into future use as an operational asset.
- 4.178 Where there is a clear plan, the asset is not surplus and the current value in existing use must be maintained. Otherwise, the asset must be assessed as being surplus and valued under IFRS 13.
- 4.179 Assets which are not held for their service potential must be valued in accordance with IFRS 5 or IAS 40 depending on whether the asset is actively held for sale.
- 4.180 Where an asset is not being used to deliver services and there is no plan to bring it back into use, with no restrictions on sale, and it does not meet the IAS 40 and IFRS 5 criteria, these assets are surplus and must be valued at fair value using IFRS 13.



4.181 In summary:

Asset	Treatment
Asset held for its service potential: in use	Current value in existing use For non-specialised assets this means Existing Use Value (EUV) For specialised assets this usually means depreciated replacement cost on a modern equivalent asset basis
Asset most recently held for its service potential: surplus but restrictions on its sale	Current value in existing use
Asset most recently held for its service potential: surplus and no restrictions on its sale	Fair value - Highest and best use (IFRS 13)
Assets not held for their service potential: Investment property	Fair value - highest and best use (IAS 40 and IFRS 13)
Assets not held for their service potential: Held for Sale	Lower of carrying amount and fair value less costs to sell (IFRS 5) Carrying amount in this instance must be treated as the amount at which it was most recently held in use.
Assets not held for their service potential: Surplus	Fair value - highest and best use (IFRS 13)

- 4.182 Reclassification of an asset between the above categories must reflect a clear decision to change the basis on which the asset is held – for instance a decision to actively market an asset for sale in accordance with the criteria set out in IFRS 5, or to take an asset out of use and treat it as surplus.
- 4.183 It is not necessary to reflect theoretical intermediate stages, for instance to consider an asset to become surplus between being in use and being sold if there is no appreciable time gap. There is therefore no requirement to revalue an asset immediately prior to sale or immediately prior to reclassification to Non-Current Assets Held for Sale.
- 4.184 DHSC group bodies must ensure consistency across disclosure notes when reclassifying assets, with the carrying amount of the asset transferring from PPE to Assets Held for Sale being reflected in both disclosures.
- 4.185 Where common reclassifications occur within the PPE note (for example, from assets under construction to operational buildings) the total of reclassifications across all asset types must be zero.
- 4.186 Where the entity wishes to sell an asset, which does not meet the IFRS 5 criteria for an asset held for sale, the sale must be recorded against the PPE note.
- 4.187 If disposing directly from the PPE note, the carrying amount of the asset on disposal will be the amount at which it was most recently held whilst in use, and sale proceeds differing from this amount will be recognised as a profit/loss on disposal.

Transfers

- 4.188 Specific guidance on accounting for asset transfers that form part of “machinery of government” transfers or “transfers of functions” can be found from paragraph 4.382.
- 4.189 Where non-current assets are transferred outside a transfer of functions or machinery of government change, the transfer value must be at fair value in line with IFRS 3 (any revaluation to be carried out in the transferor’s accounts).
- 4.190 For such transfers, DHSC permits transacting DHSC group bodies to sell and purchase assets provided that: (a) the parties record mirror sale/purchase transactions; and (b), the transaction does not involve the issue or repayment of DHSC funding (i.e. for NHS trusts and NHS foundation trusts, PDC is not issued or repaid in connection with the transaction).

Legal charges on properties

4.191 Charges on properties will result in the property being included in the PPE note if the conditions of IFRIC 12 (as adapted by the FReM) apply.

Revaluations and impairment

4.192 DHSC group bodies must select a suitable method to value assets. Where indices are used, these must be widely recognised and in common use. The source of the index must be disclosed in the narrative to the PPE note.

4.193 Cost and cumulative depreciation balances must be carried forward, without adjustment, from year to year. Hence, adjustments for revaluation or impairment are made in-year (at the date of revaluation or impairment).

4.194 On formal revaluation (as opposed to indexation), cumulative depreciation is “zeroed” as an in-year movement. A corresponding adjustment to the “cost” lines ensures that the “zeroing” arrangement does not itself distort net book values. Adjustments are made to each of the “revaluation” lines to effect the “zeroing”.

Example requirements on revaluation of PPE

Prior to revaluation:	£000
PPE asset at cost/valuation	1,000
Accumulated depreciation	(400)
Net book value	600
Asset is revalued to £1.5m. After revaluation:	
Cost/valuation	
PPE asset at cost/revaluation	1,000
Gain on revaluation	500
PPE asset at revalued amount	1,500
Accumulated depreciation	
Carry forward balance	(400)
Gain on revaluation	400
Depreciation after revaluation	Nil
Net book amount after revaluation	1,500
Amount carried to the revaluation reserve	900

Note: A revalued asset may attract further depreciation charges after “zeroing” at the date of revaluation, such that (depending on the date of revaluation) some cumulative depreciation may still be attached to the asset at the year-end.

- 4.195 A change in value must be presented in the PPE note as a revaluation only where the value changes upwards, and even so, only when the upward revaluation is not the reversal of an impairment.
- 4.196 A downward change in value must be presented as an impairment. See paragraph 4.218 for more information.
- 4.197 Negative revaluation reserve balances for individual assets are not permitted. Similarly, reversals of impairments should only bring the asset back to the value it was held at prior to impairment.
- 4.198 Subsequent increases in asset value must be treated as a revaluation (an asset cannot be “positively” impaired).

Asset lives

- 4.199 DHSC group bodies must adopt accounting policies setting appropriate useful lives for their assets.
- 4.200 DHSC group bodies must discuss any significant proposals to change asset lives with the relevant national body or the DHSC sponsor, to ensure that the budgeting implications have been considered.

Capitalisation threshold of non-current assets – de minimis limits

- 4.201 DHSC group bodies must adopt a capitalisation threshold of £5,000. This figure includes VAT where it is not recoverable.

Grouped assets

- 4.202 "Grouped assets" are a collection of assets which individually may be valued at less than £5,000 but which together form a single collective asset because the items fulfil all the following criteria:

- the items are functionally interdependent
- the items are acquired at about the same date and are planned for disposal at about the same date
- the items are under single managerial control, and

- each individual asset thus grouped has a value of over £250.

IT assets

4.203 It is expected that IT hardware will be considered interdependent if it is attached to a network, the fact that it may be capable of stand-alone use notwithstanding.

4.204 The effect of this will be that all IT equipment purchases, where the final three criteria listed above apply, will be capitalised.

Initial equipping and setting-up costs of a new building

4.205 Assets which are capital in nature, but which are individually valued at less than £5,000 but more than £250, may be capitalised as collective, or “grouped”, assets where they are acquired as part of the initial setting-up of a new building.

4.206 The enhancement or refurbishment of a ward or unit must be treated in the same way as “new build”, provided that the work would be considered as “subsequent expenditure” in IAS 16 terms.

Heritage assets

4.207 Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

4.208 It is not expected that DHSC group bodies will hold such assets as this definition excludes assets that are held for operational purposes.

4.209 Where an entity does hold a heritage asset then FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland, must be followed.

Intangible Non-Current assets

4.210 The main relevant standards are IAS 38, Intangible Assets, IFRS 13, Fair Value and SIC 32, Intangible Assets – Web Site Costs.

4.211 Guidance under Property, plant and equipment is generally applicable.

4.212 IAS 38 is adapted to remove the cost option ([see Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group](#)).

- 4.213 Where there is an active market, intangible assets must be carried at market value in existing use.
- 4.214 Where no active market exists, entities must revalue the asset to the lower of depreciated replacement cost and value in use where the asset is income generating.
- 4.215 Where there is no value in use, the asset must be valued using depreciated replacement cost.

Impairment of property, plant and equipment, intangible assets and heritage assets (IAS 36)

- 4.216 IAS 36, Impairment of Assets defines value in use as the present value of the future cash flows from the asset's continued use.
- 4.217 It adds that, where a non-current asset is not held for the purpose of generating cash flows, an alternative measure of its service potential may be more relevant. HM Treasury has interpreted this for the public sector, stating that, the value in use of a non-cash-generating asset is assumed to equal the cost of replacing that service potential, unless there has been a reduction in service potential ([see Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group](#)).

Impairments arising from a clear consumption of economic benefits or service potential

- 4.218 IAS 36, Impairment of Assets is adapted to require an impairment loss arising from a clear consumption of economic benefits or reduction of service potential to be recognised in operating expenses ([see Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group](#)), rather than offset against any amount in the revaluation reserve for the asset in question.
- 4.219 Examples of such impairments include losses as a result of loss or damage, abandonment of projects, gold-plating, and use of the asset for a lower specification purpose (FReM paragraph 10.3.3).
- 4.220 However, to ensure that the reserves are in the same position as if IAS 36 applied without adaptation, an amount must be transferred from the revaluation reserve to the income and expenditure reserve.
- 4.221 This transfer is the lower of:
- the amount of the impairment loss charged to expenses, or

- the balance on the revaluation reserve in respect of the asset.
- 4.222 An impairment that arose from a loss of economic benefits or service potential can be reversed if, and to the extent that, the circumstances that gave rise to the loss subsequently reverse.
- 4.223 For the avoidance of doubt, an increase in an asset's valuation due to an increase in general market prices is a separate event and does not represent a reversal of a previous economic benefit/service potential impairment.
- 4.224 Such events must therefore be accounted for as a revaluation gain rather than a reversal of a past economic benefit impairment.
- 4.225 Where an economic benefit/service potential impairment is reversed, the amount of the reversal recognised in expenditure is limited to the amount that restores the asset's carrying value to that it would otherwise have had if the impairment had not been recognised originally.
- 4.226 If, at the time of the original impairment, an amount was transferred from the revaluation reserve to the income and expenditure reserve, an amount must be transferred back to the revaluation reserve when the impairment is reversed to avoid overstating the income and expenditure reserve.
- 4.227 The amount transferred back is that which will bring the respective reserves to the balances that they would have had if the impairment and impairment reversal had been taken to the revaluation reserve in accordance with IAS 36.

Other impairments

- 4.228 Where an impairment loss does not result from a clear consumption of economic benefit or reduction of service potential, for instance due to a change in market price, then the standard treatment in IAS 36 applies.
- 4.229 The impairment must be taken to the revaluation reserve to the extent that the impairment does not exceed the amount in the revaluation reserve for the asset in question, and thereafter to income and expenditure.
- 4.230 As land and buildings are reported separately in the notes to the SoFP, impairments and revaluations need to be analysed between land and buildings, based on the valuer's analysis of the overall valuation of the property, and upward revaluations or impairments need to be recognised separately on land and on buildings.

Borrowing costs (IAS 23)

- 4.231 IAS 23, Borrowing Costs, requires borrowing costs incurred in connection with the acquisition or construction of a qualifying asset (principally property, plant and equipment and intangible assets) to be capitalised and included within the cost of the asset.
- 4.232 IAS 23 is interpreted such that entities must expense borrowing costs in respect of qualifying assets measured at fair value ([see Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group](#)).
- 4.233 For qualifying assets measured at current value in existing use, IAS 23 applies without interpretation, meaning borrowing costs must be capitalised.
- 4.234 Guidance for “interest on obligations under PFI contracts” is available in the 2009 document Accounting for PFI under IFRS, which is available on request from the [GAM shared inbox](#).

Leased assets (IFRS 16)

- 4.235 The relevant standard is IFRS 16 Leases. This Standard supersedes IAS 17, Leases, SIC 15, Operating Leases – Incentives, SIC 27, Evaluation the Substance of Transactions Involving the Legal Form of a Lease, and IFRIC 4, Determining whether an Arrangement contains a Lease.
- 4.236 The objective of IFRS 16 is to report information that faithfully represents lease transactions and provides a better basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.
- 4.237 Under IFRS 16 a contract, or arrangement per the adaptation referenced in paragraph 4.243, is assessed to be or contain a lease, if a right to control use of an asset for a period time is conveyed, in exchange for consideration.
- 4.238 Identification of a lease is governed by an assessment of the substance of the arrangement against the criteria set out in paragraphs B9 to B31 of the Standard and where appropriate, the transition expedient referenced in paragraph 4.242 below. IFRS 16 carries forward the concept of a right of use asset as established by IFRIC 4.
- 4.239 Regarding lessor accounting, the accounting treatments are predominantly carried forward from IAS 17.

4.240 Asymmetrical accounting treatments are therefore established through this Standard due to the persistence of most lessor accounting treatments. This will have an impact on DHSC group reporting requirements.

4.241 Practitioners should make themselves familiar with the definitions, classifications and measurements employed, application appendices in the Standard together with public sector application as per the below FReM interpretations and adaptations.

4.242 IFRS 16 is interpreted by the FReM as follows;

- The option to apply the election in IFRS 16 (5 (a)) has been withdrawn. All entities must apply the recognition and measurement exemption for short-term leases in accordance with IFRS 16 paragraphs 6 to 8.
- Where lessees cannot readily determine the interest rate implicit in the lease, they are required to use the HM Treasury discount rates promulgated in PES papers as their incremental borrowing rate. However, if an entity can demonstrate that another discount rate would more accurately represent their incremental borrowing rate (for example, if it undertakes external borrowing independently of the Exchequer), it should use that discount rate as their incremental borrowing rate.
- The option to reassess whether a contract is, or contains, a lease at the date of initial application has been withdrawn. All entities should use the practical expedient detailed in IFRS 16 (C3). There is a presumption that entities have been applying guidance in IAS 17 and IFRIC 4 appropriately in the past. Therefore, any known misapplication of the definition of a lease guidance should be corrected in accordance with IAS 8.
- The subsequent measurement basis for right-of-use assets shall be consistent with the principles for subsequent measurement of property, plant and equipment set out in the adaptations to IAS 16.
- Upon transition, the accounting policy choice to retrospectively restate in accordance with IAS 8 has been withdrawn. All entities applying this Manual shall recognise the cumulative effects of initially applying IFRS 16 recognised at the date of initial application as an adjustment to the opening balances of taxpayers' equity (or other component of equity, as appropriate) per IFRS 16(C5(b)).
- Upon transition, entities should measure the right-of-use asset for leases previously classified as operating leases per IFRS 16((C8 (b)(ii))); at an amount 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.

- Upon transition all entities applying the FReM must apply the following options for leases previously classified as operating leases:
 - No adjustments for leases for which the underlying asset is of low value that will be accounted for applying IFRS 16 (6) per (IFRS 16 C9 (a))
 - No adjustment for leases for which the lease term ends within 12 months of the date of initial application. (IFRS 16 C10 (c)) There remains a requirement to include costs associated with these leases in the short-term leases expense disclosure.
 - Use hindsight in determining the lease term if the contract contains options to extend or terminate the lease. (IFRS 16 C10 (e))

4.243 Additionally, IFRS 16 is adapted by the FReM as follows;

- The definition of a contract is expanded to include intra-UK government agreements where non-performance may not be enforceable by law.
- Peppercorn leases are defined as leases for which the consideration paid is nil or nominal (that is, significantly below market value). Peppercorn leases are in the scope of IFRS 16 if they meet the definition of a lease in all aspects apart from containing consideration. All lessees shall account for peppercorn leases using the following criteria:
 - Recognise a right-of-use asset and initially measure it at current value in existing use or fair value, depending on whether the right-of-use asset will be held for its service potential and as set out in paragraphs 10.1.4 and 10.1.6 of the FReM. If the right of use asset meets the definition of a heritage asset it should be initially measured in accordance with paragraphs 10.1.34 to 10.1.39 of the FReM.
 - Recognise a lease liability measured in accordance with IFRS 16.
 - Recognise any difference between the carrying amount of the right-of-use asset and the lease liability as income as required by IAS 20 as interpreted by the FReM.
 - Subsequently measure the right-of-use asset following the principles of IFRS 16 as adapted and interpreted by the FReM.
 - Upon transition, any peppercorn leases that were not previously classified as finance leases under IAS 17, including those considered to be outside the scope of IAS 17 courtesy of not involving an exchange of consideration, shall be recognised as follows:

- The right-of-use asset shall be measured at current value in existing use or fair value, depending on whether the right-of-use asset will be held for its service potential and as set out in paragraphs 10.1.4-10.1.6 of the FReM, as at the date of initial application; If the right of use asset meets the definition of a heritage asset, it should be initially measured in accordance with guidance on heritage assets in the FReM.
- The lease liability shall be measured at the present value of lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.
- The difference between the carrying amount of the right-of-use asset and lease liability shall be included as part of the adjustment to the opening balances of taxpayers' equity (or other component of equity, as appropriate) per IFRS 16 (C5(b)).

4.244 More detailed guidance on lease accounting is given in [Chapter 4 Annex 11](#) and in [HM Treasury's IFRS 16 application guidance](#).

Service concession arrangements and Public Private Partnerships

- 4.245 The relevant standards are IFRIC 12, Service Concession Arrangements, SIC 29, Service Concession Arrangements: Disclosures and IFRS 16 leases.
- 4.246 IFRIC 12 describes the accounting treatment for operators of public-to-private service concession arrangements. These arrangements are forms of Public Private Partnerships (PPP) and include Private Finance Initiative (PFI) and NHS Local Improvement Finance Trust (LIFT).
- 4.247 The FReM applies the mirror treatment of IFRIC 12 to grantors of service concession arrangements. From 2023-24 the FReM applies IFRS 16 to value and revalue the PFI liability associated with the arrangement.
- 4.248 Where a DHSC group body is the grantor of such an arrangement, it must recognise a PFI asset and corresponding PFI liability.
- 4.249 More detailed guidance on PFI, LIFT and the transition to applying the principles of IFRS 16 to PFI liabilities is given in [Chapter 4 Annex 5: Accounting requirements for PFI/LIFT schemes](#).

Investment property (IAS 40)

- 4.250 The relevant standard is IAS 40, Investment Properties.

- 4.251 IAS 40 is interpreted to require all investment property to be accounted for under the fair value model (see [Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group](#)).
- 4.252 The option to adopt the cost model has been withdrawn. Changes in the fair value of the property must be recognised as revenue gains or losses.
- 4.253 The Standard applies to properties held only for the purpose of earning rentals or for capital appreciation or both.
- 4.254 Where properties are held to support service delivery objectives, they must be accounted for in accordance with IAS 16.
- 4.255 Indications that a property is not an investment property might include, for example, lessees being charged rentals at less than market value, or properties being under-used without any plan to alter their use, dispose of them or otherwise take steps to improve the return on the asset.
- 4.256 IAS 40 states that properties occupied by employees, whether or not they pay rent at market rates, are not investment properties.
- 4.257 While few DHSC group bodies are likely to have investment properties, they may be found in subsidiaries and can often be held by NHS charitable funds. Thus if, and when, charitable funds are consolidated into the NHS body's accounts, any investment properties must be accounted for in accordance with IAS 40 in the consolidated accounts.
- 4.258 Paragraph 15 of the Standard requires that a property owned by an entity that is leased to and occupied by that entity's parent or subsidiary is not an investment property from the group perspective. Applying IAS 16, such a property should be regarded as owner-occupied from the group perspective.
- 4.259 However, that property may be an investment property in the entity's individual financial statements, provided it meets the recognition criteria applying IAS 40.

Non-current assets held for sale

- 4.260 The relevant standard is IFRS 5, Non-current Assets Held for Sale and Discontinued Operations.
- 4.261 IFRS 5 is interpreted such that activities must cease completely to qualify as discontinued operations (see [Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group](#)).

- 4.262 Responsibilities transferred from one part of the public sector to another are not discontinued operations.
- 4.263 Discontinued operations can only occur, therefore, in respect of activities that genuinely cease without transferring to another entity, or which transfer to an entity outside the boundary of WGA, such as the private or voluntary sectors.
- 4.264 A “disposal group” is a group of assets to be disposed of (by sale or otherwise) together as a group in a single transaction. Associated liabilities are liabilities directly associated with those assets that will be transferred in the transaction.

Inventories

- 4.265 The relevant standard is IAS 2, Inventories.
- 4.266 IAS 2 is interpreted in respect of categories of inventory held by central government for which the Standard does not adequately cover the accounting treatment.
- 4.267 DHSC and UKHSA hold inventories in the form of strategic stockpiles of vaccines. These stockpiles must be accounted for as PPE in accordance with IAS 16.

Accounting for pandemic response items as inventories

- 4.268 Prior to donation to trusts, the Department and in some instances other national bodies will be holding centrally procured items such as ventilators and other medical equipment, personal protective equipment, testing kits, medicines and vaccines as inventory prior to distribution or donation to NHS bodies.
- 4.269 The treatment of centrally procured items such as personal protective equipment as inventories is detailed in paragraph 4.133.
- 4.270 Draw down by trusts from the intensive care medicine stockpile should not be accounted for as inventories locally where it is immaterial to do so. In instances in which draw down from the intensive care stockpile is material the approach will align to that for personal protective equipment as detailed in paragraph 4.133 and NHSE supporting guidance referenced in paragraph 4.135.
- 4.271 Stocks of COVID-19 vaccines distributed to NHS bodies should not be accounted for as inventory of an NHS body. The vaccines are held for a short period of time prior to use by NHS bodies and NHS bodies are directed by the Department as to how the vaccines are used. NHS bodies are therefore agents in this scenario and will not account for the inventory or its consumption, rather this is accounted for by UKHSA.

- 4.272 Other transactions associated with the vaccination programme (for example costs incurred directly by trusts) should be accounted for based on the substance of the transaction.
- 4.273 Similarly testing kits provided to NHS bodies for nil consideration are not to be accounted for as inventory by NHS bodies. In alignment with vaccines, testing kits are held for a short time by NHS bodies who are directed as to their use by the Department who determines the policy over how tests are administered and to whom, with NHS bodies reimbursed for associated costs. Consequently testing kits are not directly consumed in the production process for NHS bodies i.e. the treatment of patients, thus not giving rise to inventory.

Financial Instruments

- 4.274 The relevant standards are IFRS 9, Financial Instruments, IAS 32, Financial Instruments: Presentation and IFRS 7, Financial Instruments: Disclosures. (IAS 39, Financial Instruments: Recognition and Measurement remains relevant under IFRS 9, with entities able to continue to apply IAS 39 requirements to qualifying instruments in a hedging relationship. However as per paragraph 4.279 below, HM Treasury has withdrawn this option.)
- 4.275 These Standards can be very complex in areas – in particular the very detailed definitions that can be found throughout the Standards.
- 4.276 Practitioners therefore should ensure they are thoroughly familiar with the Standards and take care to ensure that their transactions are properly classified, measured and disclosed.
- 4.277 IAS 32 is interpreted as follows:
- Public Dividend Capital (PDC) is not an equity instrument and must be presented as a form of financing in the SoFP (see [Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group](#)). Dividends on PDC must be presented as a form of financing in the SoCNE / SoCI and with a payable or receivable recognised as appropriate in the SoFP. PDC dividend expenditure forms part of an NHS provider's retained surplus/deficit for the year.
- 4.278 IAS 32 is adapted as follows:
- References to 'contract' and 'contractual' within IAS 32 include legislations and regulations which give rise to arrangements that in all other respects would meet the definition of a financial instrument under IAS 32.11 and, do not give rise to transactions classified as a tax by the Office of National Statistics, except for revenue

from taxation, fines and penalties that is recognised due to the IFRS 15 adaptation to the definition of a contract.

4.279 IFRS 9 is interpreted as follows:

- DHSC must report PDC at historical cost, less any impairment
- Where future cash flows are discounted to measure fair value, entities must use the higher of the rate intrinsic to the financial instrument and the real financial instrument discount rate set by HM Treasury (see Chapter 4 Annex 7 - Treasury Discount Rates) as applied to the flows expressed in current prices.
- The accounting policy choice allowed under IFRS 9 for long term trade receivables, contract assets that do contain a significant financing component (in accordance with IFRS 15), and lease receivables within the scope of IAS 17 has been withdrawn and entities must always recognise a loss allowance at an amount equal to lifetime expected credit losses. DHSC group bodies must utilise IFRS 9's simplified approach to impairment for relevant assets.
- The accounting policy choice under IFRS 9 that allows entities either to continue to apply the hedge accounting requirements of IAS 39 (until the macro hedging project is finalised) or to apply IFRS 9 has been withdrawn. DHSC group bodies may only apply IFRS 9 hedge accounting requirements.
- Any financial instrument that is not held in furtherance of the entity's objectives but is held on behalf of government more generally must be accounted for in a separate Trust Statement. In the event that this situation arises, entities must discuss with the relevant national body or DHSC sponsor.
- Special or 'golden' shares, being those shares retained in businesses that have been privatised but in which the department wishes to retain a regulatory interest or reserve power, must not be recognised in the SoFP.

4.280 Additionally, IFRS 9 is adapted as follows:

- Balances with core central government departments (including their executive agencies), the Government's Exchequer Funds, Bank of England and Government Banking Service are excluded from recognising stage-1 and stage-2 impairments. In addition, any Government Exchequer Funds' assets where repayment is ensured by primary legislation are also excluded from recognising stage-1 and stage-2 impairments. ALBs are excluded from the exemption unless they are explicitly covered by a guarantee given by their parent department.

- Balances between a parent department and its executive agencies and ALBs are not covered by the exception from recognising ECLs noted in the IFRS 9 adaptation above.
 - Liabilities with core central government departments (including their executive agencies), the Government's Exchequer Funds, and the Bank of England are assessed as having zero 'own credit risk' by the entities holding these liabilities.
 - The Government's Exchequer Funds include: The National Loans Fund, all Consolidated Funds, the Contingencies Fund, the Exchange Equalisation Account, the Debt Management Account, the Public Works Loan Board, and Commissioners for the Reduction of the National Debt.
 - Where an entity issues a financial guarantee below fair value and where no active market or observable equivalent exists such that it would follow B5.1.2A section (b), then it should instead measure the financial guarantees at initial recognition, and at reporting period end, at an amount equal to lifetime expected credit loss (ECL) in accordance with the requirements of IFRS 9. Initial measurement and subsequent measurement are to be recognised through profit and loss. For the purpose of applying the interpretations of IFRS 9, and for the purpose of determining suitable disclosures under IFRS 7, the entity shall treat the ECL as if they are an appropriate proxy for Fair Value. If it can be evidenced that the intrinsic rate cannot be reliably determined, then the HM Treasury Financial Instrument rate should be used.
- 4.281 Whilst the 3-stage impairment approach is covered in more detail in Chapter 4 Annex 6: Financial Instruments, this means that DHSC group bodies must not recognise stage-1 (12 month expected credit losses) and stage-2 (lifetime expected credit losses) impairments against other core government departments, their executive agencies and any ALB's covered by a similar guarantee.
- 4.282 DHSC provides a guarantee of last resort against the debts of DHSC group bodies (excluding NHS charities).
- 4.283 DHSC group bodies should not normally recognise stage-3 impairments (objective evidence of impairment) for receivables due from other DHSC group bodies, as such amounts are not expected to be irrecoverable.
- 4.284 If in doubt as to whether it is correct to recognise either an expected (stages 1 and 2) or an incurred (stage 3) loss allowance against a body, DHSC group bodies should consult their national body or DHSC Finance.
- 4.285 IFRS 9 includes a number of alternative accounting treatments as is covered in more detail in [Chapter 4 Annex 6: Financial Instruments](#).

- 4.286 Entities must discuss any significant choices to be made with the relevant national body or DHSC sponsor to ensure that the budgeting implications have been properly considered.
- 4.287 Under IFRS 9, loans payable should normally be measured at amortised cost, using the effective interest method. This approach to valuing financial instruments is intended to provide relevant and useful information to users for their assessments of amounts, timing and uncertainty of the entity's future cash flows.
- 4.288 In the case of DHSC loans the effective rate will consist of nominal rate charged for the loan to be applied to the outstanding balance of the loan.
- 4.289 The overriding concern remains that loans are valued on a consistent basis across the group to enable the reported balances to be eliminated on consolidation. It is therefore critical that bodies maintain agreement over the loan balance and interest rates being applied.
- 4.290 More detailed guidance on financial instruments is given in Chapter 4 Annex 6: Financial Instruments and in HM Treasury's [IFRS 9 application guidance](#).

Provisions

- 4.291 The relevant standard is IAS 37, Provisions, Contingent Liabilities and Contingent Assets.
- 4.292 IAS 37 is interpreted to require that, where the cash flows to be discounted are expressed in current prices, entities must use the real discount rates set by HM Treasury (see [Chapter 4 Annex 7 - Treasury Discount Rates](#)).
- 4.293 Note that voluntary early retirement provisions under scheme terms are discounted at the pensions rate rather than the general provisions rate.
- 4.294 HM Treasury also sets a separate discount rate for post-employment benefits, including injury benefit liabilities.
- 4.295 IAS 37 is also interpreted such that separate disclosure of information about a particular contingency need not be made if the information has a security marking (see [Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group](#)).

PDC dividends expense (NHS providers)

- 4.296 The Secretary of State requires that NHS providers pay a PDC dividend based on a charge of 3.5% of actual average relevant net assets, including subsidiaries (but

not consolidated NHS charities), during the financial year as determined in the draft/unaudited accounts submitted to NHSE.

- 4.297 Any difference between the amount of PDC dividend paid, and dividend expense, for the financial year must be recorded as a receivable or payable in the SoFP.
- 4.298 Once determined for the draft accounts, the PDC dividend expense is not recalculated to take account of any changes in net assets that may be recognised as a result of the audit of the accounts, or due to calculation errors subsequently identified in respect of prior years.
- 4.299 The PDC dividend payable (or receivable) is only adjusted in audited accounts to correct for errors in the calculation of the PDC dividend itself made in the draft accounts for that reporting year.
- 4.300 The calculation of relevant net assets is as follows:

Total public dividend capital and reserves	X
Less: Net book value of donated, grant funded and peppercorn leased assets	(X)
Less: Charitable funds (before any consolidation adjustments for charitable funds)	(X)
Less: Net cash balances in GBS accounts (excluding cash balances in GBS accounts that relate to a short-term working capital facility)	(X)
Less: Outstanding PDC Dividend prepayments	(X)
Plus: Outstanding PDC Dividend payables	X
Less: Approved expenditure on COVID-19 capital assets	(X)
Less: Assets under construction for nationally directed schemes	(X)
Add: Cash support for revenue requirements PDC drawn in-year	X
Total Relevant Net Assets	X

- 4.301 The adjustment to net relevant assets calculation in respect of the Government Banking Service (GBS) must be calculated on the basis of average daily cleared balances.

- 4.302 In practice therefore, GBS values are not deducted from 1 April and 31 March net relevant assets calculations as spot values at those dates, rather, average net relevant assets including GBS for the year is calculated, and then the average daily cleared GBS balances deducted from that figure to arrive at the relevant net assets amount for the calculation of the dividend.
- 4.303 National Loans Fund deposits are considered to be analogous to GBS balances for the calculation of relevant net assets and must also be calculated on an average daily basis.
- 4.304 Block contract cash advances received have significantly increased providers' average daily cleared balances in GBS, which in turn has reduced providers' dividend forecasts. The cash advance should remain included in the average GBS figure calculated
- 4.305 The rationale behind the changes made to the PDC dividend expense calculation relating to; debt conversion to PDC for 2020-21, COVID-19 assets, assets under construction for nationally directed schemes (AUC relief) and revenue based PDC requirements, are detailed in section 7 of the [Secretary of State's Guidance under section 42A of the National Health Service Act 2006](#).
- 4.306 The guidance explains that dividend relief is part of the wider NHS COVID-19 financial arrangements to provide temporary relief during the pandemic response and is not intended to remain in place for the life of the asset. Therefore providers have been asked to adjust their relevant net assets by the value of PDC issued, rather than the net book value.
- 4.307 For the 2020-21 dividend calculation, providers adjusted their relevant net assets by removing the value of PDC received for COVID-19 assets. Dividend relief was only applicable to PDC awards accompanied with Memorandum of Understanding (MOUs) containing reference numbers with High Consequence Infectious Disease (HCIDS), Test and Trace Capital (TTCAP) or Vaccinations 2020-21 (VACCS).
- 4.308 Providers were required to ensure the 2021-22 opening net relevant asset position included all PDC received in 2020-21 for COVID-19 assets, and that no adjustments were be made to the opening net relevant assets. This ensured the dividend relief only applied in the year the PDC was drawn which was the intention of the original policy announcement to provide temporary relief during the pandemic response. During 2021-22 relief only applied to any new PDC issued for COVID-19 assets in 2021-22 so providers removed these from their closing relevant asset position. This was for PDC awards accompanied with MOUs containing reference numbers with High Consequence Infectious Disease (HCIDS), Test and Trace Capital (TTCAP) or Vaccinations 2020 to 2021 (VACCS).

4.309 Providers did not make any adjustments to the opening net asset position in respect of revenue PDC drawn in 2020-21. For any new revenue PDC drawn in 2021-22, providers added this to their closing relevant asset position before calculating the dividend charge. The policy will be under review for the 2022-23 financial year with updates provided as part of the FAQ process.

4.310 Examples of the calculation are set out below.

Example calculation without AUC relief and revenue PDC dividend:	£'000
Opening capital and reserves (including GBS and NLF balances and prior to consolidation of charitable funds)	123,000
Less: Opening donated, granted and peppercorn leased assets net book value	(3,000)
Less: Opening adjustment to remove all relevant assets under construction NBV	0
Total Opening relevant net assets [A]	170,000
Closing capital and reserves (including GBS and NLF balances and prior to consolidation of charitable funds)	128,500
Less: Closing donated, granted and peppercorn leased assets NBV and PDC issued for COVID-19 assets	(15,000)
Less: Relevant assets under construction NBV	0
Add: Cash support for revenue requirements PDC drawn in-year	0
Total Closing relevant net assets [B]	113,500
Average relevant net assets (including GBS and NLF) [(A+B)/2]=[C]	141,750
Less: Average daily cleared/available GBS balances and NLF deposits over the year [D]	(7,500)
Average relevant net assets for PDC dividend calculation [C-D]=[E]	134,250
Total PDC dividend expense [E*3.5%]	4,699

Example calculation with AUC relief:	£'000
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Opening capital and reserves (including GBS and NLF balances and prior to consolidation of charitable funds)	123,000
Less: Opening donated, granted and peppercorn leased assets net book value	(3,000)
Less: Opening adjustment to remove all relevant assets under construction NBV	(7,000)
Total Opening relevant net assets [A]	163,000
Closing capital and reserves (including GBS and NLF balances and prior to consolidation of charitable funds)	128,500
Less: Closing donated, granted and peppercorn assets NBV and PDC issued for COVID-19 assets	(15,000)
Less: Relevant assets under construction NBV	(7,000)
Add: Cash support for revenue requirements PDC drawn in-year	0
Total Closing relevant net assets [B]	106,500
Average relevant net assets (including GBS and NLF) [(A+B)/2]=[C]	134,750
Less: Average daily cleared/available GBS balances and NLF deposits over the year [D]	(7,500)
Average relevant net assets for PDC dividend calculation [C-D]=[E]	127,250
Total PDC dividend expense [E*3.5%]	4,454

Example calculation with Revenue PDC dividend:	£'000
Opening capital and reserves (including GBS and NLF balances and prior to consolidation of charitable funds)	123,000
Less: Opening donated, granted and peppercorn leased assets net book value	(3,000)
Less: Opening adjustment to remove all relevant assets under construction NBV	0
Total Opening relevant net assets [A]	170,000

Closing capital and reserves (including GBS and NLF balances and prior to consolidation of charitable funds)	128,500
Less: Closing donated, granted and peppercorn leased assets NBV and PDC issued for COVID-19 assets	(15,000)
Less: Relevant assets under construction NBV	0
Add: Cash support for revenue requirements PDC drawn in-year	10,000
Total Closing relevant net assets [B]	123,500
Average relevant net assets (including GBS and NLF) [(A+B)/2]=[C]	146,750
Less: Average daily cleared/available GBS balances and NLF deposits over the year [D]	(7,500)
Average relevant net assets for PDC dividend calculation [C-D]=[E]	139,250
Total PDC dividend expense [E*3.5%]	4,874

- 4.311 Where a provider exists for only part of the financial year, the charge should be pro-rated to reflect the number of months the provider was in existence.
- 4.312 Where a provider is formed on or after 1 April, opening net relevant assets should be calculated after the transfer in of assets and liabilities from any predecessor bodies.
- 4.313 For providers ceasing to exist on or before 31 March, closing net relevant assets should be calculated before the transfer of assets and liabilities to any successor bodies.
- 4.314 Where an existing provider acquires the services and accompanying net assets/liabilities of a demising provider towards the start or end of a financial year, this may have a distorting effect on the PDC dividend calculation.
- 4.315 In such circumstances, closing net relevant assets should exclude the transferred net assets/liabilities, to initially compute average relevant net assets for the continuing provider without the effect of the acquisition.
- 4.316 The part year effect of the acquired net assets/liabilities should then be added to the average relevant net assets, before calculating the 3.5% charge. For example,

where an acquisition occurred on 1 July 9/12 of the net relevant assets acquired would be included.

- 4.317 In the subsequent financial year, opening net relevant assets should relate to the full asset base of the enlarged provider.
- 4.318 Entities should note that any changes stemming from the publication of the cash regime guidance and dividend policy will be reflected via a Q4 FAQ.

Group Accounting Standards

Consolidated Accounts

4.319 The following group accounting standards are relevant:

- IFRS 10, Consolidated Financial Statements
- IFRS 11, Joint Arrangements
- IFRS 12, Disclosure of Interests in Other Entities
- IAS 27, Separate Financial Statements
- IAS 28, Investments in Associates and Joint Ventures.

4.320 As set out in paragraph 2.41, IFRS 10 is adapted for departments and agencies to define the departmental accounting boundary according to control criteria used by the Office for National Statistics (ONS) to determine the sector classification of the relevant sponsored bodies ([see Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group](#)).

4.321 This means that public bodies will only fall within the DHSC group if HM Treasury has designated them for consolidation by DHSC in line with the ONS classification. DHSC agencies must only consolidate subsidiaries that have been designated to the DHSC group.

4.322 This adaption does not apply to NHS bodies and DHSC ALBs (excluding agencies), which must apply group accounting standards without adaptation or interpretation.

4.323 This raises the possibility, where investments in other entities are material at the national level, that consolidation adjustments may be required between individual accounts (which may consolidate bodies in accordance with IFRS 10 but which

are outside the DHSC group) and the consolidated account and budgets (which must not consolidate any bodies not designated to the DHSC group).

- 4.324 Where the question of materiality at the national level arises, entities must discuss with their sponsor division or relevant national body with a view to their agreeing treatments with DHSC.
- 4.325 Similar adaptations apply to IFRS 11, Joint Arrangements and IAS 28, Investments in Associates and Joint Ventures for departments and agencies only.
- 4.326 These require that departments account for investments in other public sector bodies as subsidiaries under IFRS 10 where they have been designated to the departmental group, or otherwise as investments under IFRS 9.
- 4.327 DHSC agencies must apply IFRS 11 and IAS 28 only to investments in public sector bodies that are designated to the DHSC group, and otherwise must account for them as investments under IFRS 9.
- 4.328 These adaptations do not apply to investments in bodies classified to the private sector or rest of the world, and do not apply for NHS bodies and DHSC ALBs (excluding agencies).
- 4.329 The table below summarises the requirements for DHSC Group bodies resulting from these adaptations.
- 4.330 For the purpose of application of the consolidation standards, NHS trusts, NHS foundation trusts and ICBs are considered to be ALBs as defined by the FReM (4.4.6 to 4.4.7).
- 4.331 In this context, ALB does not apply to executive agencies, which are deemed to form part of the core-Department of Health and Social Care.

Investment	DHSC and DHSC agencies accounting treatment	NHS bodies and DHSC ALBs (excl. agencies) accounting treatment
Entity has control over investee. IFRS 10 Consolidated Financial Statements applies	If the subsidiary is designated to the DHSC boundary by virtue of a Statutory Instrument following Office of National Statistics (ONS) classification: Consolidate per IFRS 10 If subsidiary is a public sector body not designated or is	Apply IFRS 10 in full and without adaptation in Statutory Accounts. Treatment in summarisation schedules: - NHS providers - submission must be consistent with the statutory accounts. NHSE will adjust centrally where a material

	<p>classified as a public corporation:</p> <p>Treat as investment per IFRS 9, Financial Instruments: Recognition and Measurement</p>	<p>subsidiary is not designated for consolidation.</p> <p>- Other NHS bodies and ALBs - Summarisation schedules must be on a single entity basis, excluding subsidiaries not designated for consolidation, unless these are immaterial to the group.</p> <p>Contact the relevant DHSC sponsor division or national body to discuss where necessary.</p>
<p>Entity has investments in joint ventures or associates.</p>	<p>For joint ventures and associates designated to the DHSC boundary, DHSC must follow IFRS 10 and DHSC agencies must follow IAS 28.</p> <p>Otherwise:</p> <p>if the investment is in another public sector body or public corporation</p> <p>Treat as investment per IFRS 9, Financial Instruments: Recognition and Measurement, as above.</p> <p>if the investee is classified to the private sector and the rest of the world by ONS</p> <p>Apply IAS 28, Investments in Associates and Joint Ventures, and apply the equity method of accounting.</p>	<p>Apply IAS 28 in full and without adaptation in Statutory Accounts.</p> <p>Treatment in summarisation schedules:</p> <p>- NHS providers - submission must be consistent with the statutory accounts. NHSE will adjust centrally where a material public sector joint ventures or associate is not designated for consolidation.</p> <p>- Other NHS bodies and ALBs - Summarisation schedules must treat non-designated public sector joint ventures and associates as investments, unless these are immaterial to the group.</p> <p>Contact the relevant DHSC sponsor division or national body to discuss where necessary.</p>
<p>A joint arrangement exists</p>	<p>For joint arrangements designated to the DHSC boundary, DHSC must follow IFRS 10 and DHSC agencies must follow IFRS 11.</p> <p>Otherwise:</p> <p>if the investment is in another public sector body or public corporation</p>	<p>Apply IFRS 11, Joint Arrangements, in full and without adaptation in Statutory Accounts.</p> <p>Treatment in summarisation schedules:</p> <p>- NHS providers - submission must be consistent with the statutory accounts. NHSE will adjust centrally where a material</p>

	<p>Treat as investment per IFRS 9, Financial Instruments: Recognition and Measurement, as above.</p> <p>If the investment is with a body classified to the private sector and rest of the world by the ONS</p> <p>Apply IFRS 11 without adaptation.</p>	<p>public sector joint venture or associate is not designated for consolidation.</p> <p>- Other NHS bodies and ALBs - Summarisation schedules must treat non-designated public sector joint arrangements as investments, unless these are immaterial to the group.</p> <p>Contact the relevant DHSC sponsor division or national body to discuss where necessary.</p>
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- 4.332 IAS 27 is adapted such that it is only applicable to investments in entities that have not been designated to the DHSC group.
- 4.333 IFRS 12 is adapted such that it applies in full, subject to the adaptations to IFRS 10, IFRS 11, IAS 27 and IAS 28.
- 4.334 The following sections describe the application without adaptation of IFRS 10, IFRS 11, IFRS 12 and IAS 28, and are relevant to NHS bodies and DHSC ALBs (excluding agencies).

Subsidiaries (IFRS 10)

- 4.335 Under IFRS 10, an entity controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
- 4.336 Control should be assessed regardless of the nature of the body's involvement with the investee; i.e. there does not need to be a formal financial investment in the entity.
- 4.337 Power over the investee occurs where the entity has existing rights that give it the current ability to direct the relevant activities i.e. the activities that significantly affect the returns the entity receives from the investee.
- 4.338 If the entity determines that another entity is a subsidiary, then it must consolidate the subsidiary in accordance with IFRS 10.
- 4.339 The ARA of the entity then includes both the group accounts and individual accounts of the entity.

NHS Charities: local consolidation by NHS bodies

- 4.340 Under IFRS 10, and where the criteria related to control of the charity applies, and subject to materiality, charitable funds related to an NHS body must be consolidated.
- 4.341 There is an additional requirement for DHSC to consolidate NHS Charities, which have been classified by the Office of National Statistics (ONS) as within the public sector, into the DHSC group accounts.
- 4.342 In this sense, 'NHS Charities' is defined by section 43 of the Charities Act 1993, and includes those charities where trustees are appointed by NHSE.
- 4.343 NHS bodies will therefore need to distinguish between:
- those charitable funds that fall to be consolidated in the NHS body's own accounts under IFRS 10, and
 - funds classified to the public sector by ONS, which DHSC will separately consolidate as required by its designation order.
- 4.344 Where the NHS charitable funds are consolidated by the NHS body, the SoFP must present charitable unrestricted funds, restricted funds and endowments as a single item of charitable reserves, with separate analysis and explanation of these funds in a note to the accounts where applicable.
- 4.345 To record any charitable income, additional line items are also likely to be needed in the SoCI, SoCF, and within the supporting notes.
- 4.346 NHS bodies are reminded that charitable funds are prepared in line with the Charities Statement of Recommended Practice (SORP).
- 4.347 As a consequence, consolidation adjustments may be required to align the charitable funds results with those prepared by the trust under IFRS and the FReM.
- 4.348 The preparation of statements of account by the charitable fund will also be prepared to a different timetable, as issued by the Charities Commission.
- 4.349 The NHS body should therefore discuss with the fund how best to obtain the charitable funds data for consolidation in time to meet the NHS body's own accounts timetable.

Associates (IAS 28)

- 4.350 An entity is an associate of another entity where that entity has significant influence over it, and yet the entity is not a subsidiary or a joint arrangement (being a joint operation or joint venture).
- 4.351 Significant influence is the power to participate in the financial and operating policy decisions of the entity, but is neither control nor joint control over the policies.
- 4.352 It is therefore sufficient merely to have the power to exercise significant influence in order for the entity to be an associate, regardless of whether the power is actually used in practice.
- 4.353 Where an associate exists, the entity exercising significant influence must recognise its activities through the equity accounting method in accordance with IAS 28.
- 4.354 The use of the equity method for associates is required even where an entity is not already preparing consolidated accounts.
- 4.355 Where, however, an associate is classified as 'held for sale' in accordance with IFRS 5, it must be accounted for in accordance with the requirements of that Standard.

Joint arrangements (IFRS 11)

- 4.356 A joint arrangement is an arrangement of which two or more parties have joint control.
- 4.357 Joint control, in turn, is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
- 4.358 A joint arrangement is either a joint operation or a joint venture.
- 4.359 More detailed guidance on pooled budgets and joint arrangements, including the Better Care Fund, can be found in [Chapter 4 Annex 8 – Accounting for Pooled Budgets and Joint Arrangements](#).
- 4.360 The classification of a joint arrangement as either a joint operation or a joint venture depends on the rights and obligations of the parties to the arrangement.
- 4.361 A joint operation exists where the parties sharing joint control have rights to the assets and obligations for the liabilities relating to the arrangement.

- 4.362 Where an entity is a joint operator it must recognise its, or its share of, assets, liabilities, income and expenses in its own accounts.
- 4.363 A joint venture exists where the parties sharing joint control have rights to the net assets of the arrangement.
- 4.364 Where an entity has entered into a joint venture, it must recognise its investment in its own group accounts through the equity method in IAS 28 (unless exempted from doing so under that Standard). In its separate financial statements, the entity must account for the joint venture in accordance with paragraph 10 of IAS 27.

Disclosure of interests in other entities (IFRS 12)

- 4.365 The Standard sets out disclosure requirements, including summarised financial information, for investments in subsidiaries, joint arrangements and associates.
- 4.366 The disclosures relating to subsidiaries will also apply to the consolidation of NHS charitable funds.
- 4.367 The Standard also requires disclosure of interests in unconsolidated structured entities.
- 4.368 Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example where voting rights relate to administrative tasks only and the relevant activities are directed instead by means of contractual arrangements.
- 4.369 While IFRS 12 applies in full, entities are expected to take a proportionate approach to these disclosures and may wish to apply the aggregation principles set out in paragraphs B2 to B6 of the Standard where an entity has a number of interests to disclose, if applicable.
- 4.370 Entities must also include disclosures for related undertakings as required by the [section 409 of the Companies Act 2006](#) and regulation 7 and schedule 4 to SI 2008 No.410, [The Large and Medium-sized Companies and Groups \(Accounts and Reports\) Regulations 2008](#).

Interests in entities not accounted for under IFRS 10 and IFRS 11

- 4.371 Where an entity has an interest in a subsidiary, joint arrangement or associate which has not been accounted for under IFRS 10 or IFRS 11 (for example on the grounds of materiality), it is a requirement of this manual that the name of the entity, nature of the relationship and the basis for non-consolidation must be disclosed in the accounting policies of the entity.

Business Combinations

4.372 The relevant standard is IFRS 3, Business Combinations.

Acquisition of a business from outside the WGA boundary

4.373 Where a DHSC group body acquires a business from outside of the Whole of Government Accounts boundary, it must be accounted for in accordance with IFRS 3.

4.374 Where IFRS 3 is applicable, the combination is accounted for at fair value at the date of combination.

4.375 Goodwill arising from the transaction is accounted for as an asset: it is not amortised but is subject to impairment testing as required by IAS 36, Impairment of Assets.

Acquisition/Transfer of a business from inside the WGA boundary

4.376 IFRS 3 excludes from its scope business combinations involving entities or businesses under common control.

4.377 IFRS 3 is interpreted such that public sector bodies are deemed to be under common control ([see Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group](#)).

4.378 Where a function transfers between a DHSC group body and another entity within the Whole of Government Accounts boundary this represents a “machinery of government change” regardless of the mechanism used to effect the combination, for example statutory merger or purchase of the business.

4.379 For these purposes, a function is defined as “an identifiable business operation with an integrated set of activities, staff and recognised assets and/or liabilities that are capable of being conducted and managed to achieve the objectives of that business operation”.

4.380 DHSC group bodies must account for transfers of function to/from another DHSC group body or to/from a local government body as a ‘transfer by absorption’.

4.381 Where the transfer from the group body is to/from another central government body within the WGA boundary (not within the DHSC group), the machinery of government change would be accounted for as a “transfer by merger”. The FReM describes the required accounting in such cases.

Transfer by absorption

- 4.382 Where a DHSC group body is the recipient in the transfer of a function, it recognises the assets and liabilities received as at the date of transfer. The assets and liabilities are not adjusted to fair value prior to recognition (i.e. the recipient and exporter of the assets and liabilities recognise the same values).
- 4.383 The corresponding net credit / debit reflecting the gain / loss is recognised within income / expenses, but outside of operating activities. The only exception to this approach is detailed in paragraph 4.399.
- 4.384 The pre-transfer income, expenses, assets and liabilities of the group body are not adjusted to include any pre-transfer activity of the function.
- 4.385 For property plant and equipment assets and intangible assets, the cost and accumulated depreciation / amortisation amounts from the transferring entity's accounts are preserved when the assets are recognised in the body's accounts.
- 4.386 Where any assets received had an attributable revaluation reserve balance in the transferring entity's accounts, this is preserved in the group body's accounts by it transferring the relevant amount from its income and expenditure reserve to its revaluation reserve

Example 1:

During the financial year, an NHS foundation trust is the recipient of a transfer of a function from an NHS trust that meets the definition of a machinery of government change. The function is received on 1 February. The net assets received are £40m. These net assets have an associated revaluation reserve balance in the NHS trust's accounts of £12m.

On 1 February the NHS foundation trust recognises the £40m net assets in its SoFP. It also recognises a gain of £40m which it records as income. This income is material and therefore the trust decides to present it in the SoCI as a separate item below Finance Costs but within the overall surplus/deficit.

The NHS foundation trust then transfers £12m from its income and expenditure reserve to its revaluation reserve, and reports this transfer in the statement of changes in taxpayers' equity.

- 4.387 Transfers are recorded based on the book values of assets and liabilities transferring.

- 4.388 Adjustments to values as a result of harmonising accounting policies are made immediately after this initial transfer, and are adjusted directly in taxpayers' equity. It is recommended the DHSC group body explain the effects of these changes in a note to its accounts.
- 4.389 Where, the DHSC group body is the body relinquishing the function, the opposite accounting entries apply. It de-recognises the assets and liabilities as at the date of transfer and recognises the corresponding net debit / credit as a loss / gain in expenses / income but not within operating activities.
- 4.390 Any revaluation reserve balances attributable to the assets transferred are removed from the revaluation reserve and transferred to the income and expenditure reserve.
- 4.391 The pre-transfer activities of the function remain in the original body's accounts. The only adjustments made are in respect of the assets and liabilities actually transferring, as described above.
- 4.392 Where the divesting body is an NHS trust or NHS foundation trust, and its services are transferred to one or more receiving bodies, Public Dividend Capital (PDC) may also transfer and will be specified in the legal documentation. Where such transfers occur entities need to engage the DHSC provider finance team to action transfers of PDC balances.
- 4.393 Where this is the case, the total value of PDC transferring to receiving entities will normally be the lower of net assets transferring (excluding consolidated charitable fund net assets) and the existing PDC reserve balance in the divesting body.
- 4.394 Where net assets exceed the existing PDC balance, legal documentation will determine the basis of the allocation of PDC between the multiple receiving bodies, and the Secretary of State will subsequently determine the values of PDC transferred. Where such transfers occur entities need to engage the DHSC provider finance team to action transfers of PDC balances.
- 4.395 Where the value of PDC in the divesting body exceeds the value of net assets transferring, the excess will be retained by the divesting trust in its closing balance sheet and DHSC will usually then apply to HM Treasury for this excess to be subsequently written off.
- 4.396 When a PDC balance is transferred to a receiving body, PDC will be recognised by the receiving body by transferring the relevant amount from its income and expenditure reserve to its PDC reserve (see example 2 below).

Example 2:

During the financial year, two NHS foundation trusts merge such that all services and net assets from NHS Foundation Trust A are transferred to NHS Foundation Trust B. The transfer occurs on 1 June and the net assets received by NHS Foundation Trust B are £210m with an associated revaluation reserve of £30m. The PDC balance in NHS Foundation Trust A immediately prior to transfer is £250m. £210m of PDC is transferred to NHS Foundation Trust B.

NHS Foundation Trust B first recognises the receipt of net assets and records the gain in non-operating income and expenditure.

Dr Net assets £210m
Cr I&E (absorption gain) £210m

The revaluation reserve is then recreated in NHS Foundation Trust B.

Dr I&E reserve £30m
Cr Revaluation reserve £30m

PDC is then recognised in NHS Foundation Trust B at £210m (the lower of net assets and the existing PDC balance as set out in the transfer order).

Dr I&E reserve £210m
Cr PDC reserve £210m

NHS Foundation Trust A mirrors the transfer between PDC reserve and I&E reserve but retains the excess £40m PDC balance. The closing balance sheet of NHS Foundation Trust A reported in year-end summarisation schedules (after the 1 June transfer) will contain only PDC reserve of £40m and an I&E reserve of (£40m).

- 4.397 Where control of a charitable fund passes to an NHS body (i.e. a demising trust's charitable fund is transferred to another trust through a change of corporate trustee) and this meets the definition of control, the local group accounts prepared by the NHS body may need to record an absorption accounting gain or loss, with no prior year restatement. This ensures that a consistent policy of absorption accounting is applied within the group.
- 4.398 Where the funds of a demising charity are transferred into an existing charity, this will be recorded as incoming resources (or charitable expenditure where net liabilities transfer) in the underlying charity's accounts before consolidation into the local group accounts.

Modified Absorption Accounting

- 4.399 Transfers of former Primary Care Trust assets from NHS Property Services to NHS providers under the [Asset Transfer Policy](#) announced in May 2019, will occur via a modified absorption approach, in which the corresponding debit / credit to reflect the gain / loss on transfer is recognised directly in reserves.
- 4.400 The modification relates only to the scoring of the corresponding debit and credit to the reserves. The guidance on treatment of pre transfer activity, valuation, accumulated depreciation and revaluation reserves as detailed in paragraphs 4.382 to 4.397 applies equally to the modified absorption approach.
- 4.401 The treatment mirrors the approach taken in transferring properties into NHS Property Services in 2013-14.
- 4.402 Transfers from CCG's to Integrated Care Boards also applied this treatment during 2022-23.
- 4.403 All other transfers by absorption are required to follow the treatment as prescribed from paragraph 4.382.

Changes in Entity Status – Reporting Requirements

- 4.404 DHSC group bodies should familiarise themselves with the additional reporting requirements arising from changes in their status during the financial year.
- 4.405 Multiple reports may be required in circumstances where group bodies are newly created, undergo mergers, change status (such as NHS trust to NHS foundation trust, or special health authority to non-departmental public body), or are dissolved during the financial year.
- 4.406 In general, in situations where changes occur, the following additional requirements will apply:
- Change in status from NHS trust to NHS foundation trust (i.e. upon authorisation as an NHS foundation trust) will require two ARAs, one for the NHS trust to the date of the change, and one for the foundation trust from the date of the change. The same applies for changes in ALB status.
 - Newly established entities will create an ARA from the date of their establishment. This applies regardless of whether the establishment of the new entity occurred as a result of two (or more) entities dissolving to form a new entity.

- Where entities are dissolved, they will need to produce an ARA up to the date of their dissolution. This applies regardless of whether there was a successor body (for example, as a result of two entities dissolving to form a brand new entity), or whether the dissolution occurs as a result of a takeover of services by another entity.
- 4.407 Full reporting requirements are described in [Chapter 4 Annex 9: Reporting requirements on change of status](#).

Events after the reporting period

- 4.408 IAS 10, Events after the Reporting Period, requires the entity to consider whether financial statements require adjustment as a result of events occurring after the reporting date.
- 4.409 In accordance with the interpretation of IAS 10 (see [Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group](#)) relating to Public Dividend Capital, dividends paid after the reporting date but which are in respect of the reporting period, must be accrued as a liability in the SoFP. Likewise, any overpayments of dividend at the financial year-end must be recorded as an asset.
- 4.410 The date of the Accounting Officer's authorisation for issue of the financial statements is normally the same as the date of the Certificate and Report of the Comptroller and Auditor General or other auditor.
- 4.411 The date of authorisation for issue must be included in the Annual Report and Accounts, but not on the title page.

Related party disclosures

- 4.412 The relevant standard is IAS 24, Related party disclosures. This Standard is interpreted as set out in [Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group](#).
- 4.413 Further guidance on related party disclosures is given in Chapter 5 at paragraph 5.246.

Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group

4.414 The Treasury Financial Reporting Manual (FReM) and the DHSC Group Accounting Manual (GAM) follow International Financial Reporting Standards (IFRS) (as adopted by the United Kingdom) and interpretations to the extent that they are meaningful and appropriate to public benefit entities.

4.415 The FReM often applies interpretations and adaptations to UK-adopted Standards. The table below provides, for each IFRS Standard and Interpretation:

- its objective
- as dictated by the FReM, its applicability to the DHSC group, including any interpretations and adaptations. Where the application of a standard has been discussed in Chapter 4, the FReM interpretations and adaptations will have been provided. For completeness they are replicated in the below annex

4.416 IFRS Standards can be obtained from the International Accounting Standards Board (IASB) at www.ifrs.org.

Standard/Interpretation and its objective	Applicability to the DHSC group (as prescribed by the FReM)
International Financial Reporting Standards (IFRS)	
<p>IFRS 1 First-time Adoption of International Financial Reporting Standards</p> <p>The objective of IFRS 1 is to ensure that the entity’s first IFRS financial statements contain high quality information that:</p> <ul style="list-style-type: none"> • is transparent for users and comparable over all periods presented • provides a suitable starting point for accounting under IFRS, and • can be generated at a cost that does not exceed the benefits to users. 	<p>Applies with the following interpretation: Financial statements to be prepared under the historical cost convention, modified by the revaluation of assets and liabilities to fair value as determined by the relevant accounting standard, and so the elections available in IAS 1, 16, 17 and 18 are not relevant.</p>

<p>IFRS 2 Share-based Payment</p> <p>The objective of IFRS 2 is to specify the financial reporting by an entity when it undertakes a share-based payment transaction under which the entity acquires or receives goods or services.</p>	<p>Not relevant.</p>
<p>IFRS 3 Business Combinations</p> <p>IFRS 3 requires business combinations to be accounted for using the purchase method (also known as the acquisition method).</p> <p>Further details in the GAM: 4.372</p>	<p>Applies with the following interpretation:</p> <p>IFRS 3 excludes from its scope business combinations involving entities or businesses under common control. Public sector bodies are deemed to be under common control. Therefore IFRS 3 applies only to combinations involving DHSC group body with an entity outside the public sector.</p>
<p>IFRS 4 Insurance Contracts</p> <p>The objective of IFRS 4 is to specify the financial reporting for insurance contracts by an entity that issues such contracts (the insurer).</p>	<p>Not relevant.</p>
<p>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</p> <p>IFRS 5 sets out requirements for the classification, measurement and presentation of non-current assets held for sale.</p> <p>Further details in the GAM: 4.260, 4.168 to 4.188, 5.124 to 5.126 Also see: IAS 16: Property, Plant and Equipment IAS 36: Impairment of Assets IAS 38: Intangible Assets</p>	<p>Applies in full with the following interpretation:</p> <p>To qualify as ‘discontinued operations’, activities must cease completely. Responsibilities transferred from one part of the public sector to another are not discontinued operations. Discontinued operations can only occur, therefore, in respect of activities that genuinely cease without transferring to another entity, or which transfer to an entity outside the boundary of WGA, such as the private or voluntary sectors.</p>
<p>IFRS 6 Exploration for and Evaluation of Mineral Resources</p> <p>The objective of IFRS 6 is to specify the financial reporting for the exploration for and evaluation of mineral resources.</p>	<p>Not relevant.</p>

<p>IFRS 7 Financial Instruments: Disclosures</p> <p>The objective of IFRS 7 is to require entities to provide disclosures in their financial statements that enable users to evaluate: the significance of financial instruments to the entity’s financial position and performances, and the nature and extent of risks from financial instruments and how the entity manages those risks.</p> <p>Further details in the GAM: 4.106 to 4.117, 4.274 to 4.290, Chapter 4 Annex 6: Financial Instruments , 5.154 to 5.156 Also see: IFRS 9 Financial Instruments IAS 32 Financial Instruments: Presentation</p>	<p>Applies in full.</p>
<p>IFRS 8 Operating Segments</p> <p>The objective of IFRS 8 is to require an entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which it operates.</p> <p>Further details in the GAM: 5.45 to 5.52</p>	<p>Applies in full.</p>
<p>IFRS 9 Financial Instruments</p> <p>The objective of IFRS 9 is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows. Please find HM Treasury’s application guidance at this link</p> <p>Further details in the GAM:</p>	<p>Applies in full with the following interpretations and adaptations:</p> <p>Interpretations DHSC must report public dividend capital at historical cost, less any impairment. Where future cash flows are discounted to measure fair value, entities must use the higher of the rate intrinsic to the financial instrument and the real discount rate set by HM Treasury, as applied to the flows expressed in current prices.</p>

<p>4.274 to 4.290, Chapter 4 Annex 6: Financial Instruments</p> <p>Also see: IAS 32 Financial Instruments: Presentation IFRS 7 Financial Instruments: Disclosure</p> <p>IFRIC 16 Hedges of a Net Investment in a Foreign Operation</p>	<p>The accounting policy choice allowed under IFRS 9 for long term trade receivables, contract assets that do contain a significant financing component (in accordance with IFRS 15), and lease receivables within the scope of IAS 17 has been withdrawn and entities must always recognise a loss allowance at an amount equal to lifetime expected credit losses. DHSC group bodies must utilise IFRS 9's simplified approach to impairment for relevant assets.</p> <p>The accounting policy choice under IFRS 9 that allows entities either to continue to apply the hedge accounting requirements of IAS 39 (until the macro hedging project is finalised) or to apply IFRS 9 has been withdrawn. DHSC group bodies may only apply IFRS 9 hedge accounting requirements.</p> <p>The accounting policy choice under IFRS 9 that allows entities upon transition to restate prior periods if, and only if, it is possible without the use of hindsight has been withdrawn. DHSC group bodies must recognise any difference between the previous carrying amount and the carrying amount at the beginning of the 2018-19 annual reporting period in the opening retained earnings (or other component of equity, as appropriate) as at 1 April 2018. Any financial instrument that is not held in furtherance of the entity's objectives, but is held on behalf of government more generally, must be accounted for in a separate Trust Statement. In the event that this situation arises, entities must discuss with the relevant national body or DHSC sponsor.</p> <p>Special or 'golden' shares, being those shares retained in businesses that have been privatised but in which the department wishes to retain a regulatory interest or reserve power, must not be recognised in the SoFP.</p> <p>Adaptations Balances with core central government departments (including their executive</p>
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	<p>agencies), the Government’s Exchequer Funds, and the Bank of England are excluded from recognising stage-1 and stage-2 impairments. In addition, any Government Exchequer Funds’ assets where repayment is ensured by primary legislation are also excluded from recognising stage-1 and stage-2 impairments. ALBs are excluded from the exemption unless they are explicitly covered by a guarantee given by their parent department.</p> <p>Balances between a parent department and its executive agencies and ALBs are not covered by the exception from recognising ECLs noted in the IFRS 9 adaptation above.</p> <p>Liabilities with core central government departments (including their executive agencies), the Government’s Exchequer Funds, and the Bank of England are assessed as having zero ‘own credit risk’ by the entities holding these liabilities. Where an entity issues a financial guarantee below fair value and where no active market or observable equivalent exists such that it would follow B5.1.2A section (b), then it should instead measure the financial guarantees at initial recognition, and at reporting period end, at an amount equal to lifetime expected credit loss (ECL) in accordance with the requirements of IFRS 9. Initial measurement and subsequent measurement are to be recognised through profit and loss. For the purpose of applying the interpretations of IFRS 9, and for the purpose of determining suitable disclosures under IFRS 7, the entity shall treat the ECL as if they are an appropriate proxy for Fair Value. If it can be evidenced that the intrinsic rate cannot be reliably determined, then the HM Treasury Financial Instrument rate should be used.</p>
<p>IFRS 10 Consolidated Financial Statements</p>	<p>Applies subject to the following adaptations:</p>

<p>The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.</p> <p>Further details in the GAM: 4.319 to 4.346, 4.371, 5.131</p>	<p>The departmental boundary is similar to the concept of a group under generally accepted accounting practice, but is based on control criteria used by the Office for National Statistics to determine the sector classification of the relevant sponsored bodies. DHSC will account for subsidiaries under IFRS 10 only if they are designated for consolidation by order of HM Treasury under statutory instrument, which will reflect the ONS's classification of an entity to the central government sector. DHSC agencies must follow the requirements of IFRS 10 only if the subsidiaries are within DHSC's consolidation boundary. NHS bodies and DHSC ALBs (excluding agencies) must apply IFRS 10 in full, without adaptation.</p>
<p>IFRS 11 Joint Arrangements</p> <p>The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).</p> <p>Further details in the GAM: 4.319 to 4.325, 4.356 to 4.363, Chapter 4 Annex 8 – Accounting for Pooled Budgets and Joint Arrangements</p>	<p>Applies subject to the following adaptations:</p> <p>In accordance with the principles set out in Managing Public Money, executive non-departmental and similar public bodies classified to central government by the Office for National Statistics will normally be controlled for accountability purposes by only one department in accordance with IFRS 10, and not as a joint arrangement under IFRS 11.</p> <p>Where DHSC has an investment in another public sector entity that has not been designated for consolidation, it must be reported following the requirements of IFRS 9. This includes all interest in bodies classified as public corporations by the ONS, which are within the scope of Managing Public Money principles. DHSC agencies must follow the requirements of IFRS 11 with respect to public sector entities only if the entities are within DHSC's consolidation boundary. DHSC and DHSC agencies must apply IFRS 11 without adaptation to bodies classified to the private sector and rest of the world by ONS.</p>

	<p>NHS bodies and DHSC ALBs (excluding agencies) must apply IFRS 11 without adaptation.</p>
<p>IFRS 12 Disclosure of Interests in Other Entities</p> <p>The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:</p> <p>the nature of, and risks associated with, its interests in other entities, and the effects of those interests on its financial position, financial performance and cash flows.</p> <p>Further details in the GAM: 4.319 to 4.333, 4.365</p>	<p>Disclosure of interests in other entities is subject to the adaptations for DHSC and DHSC agencies to IFRS 10, IFRS 11, IAS 27 and IAS 28.</p> <p>For NHS bodies and DHSC ALBs (excluding agencies), the Standard is applied in full.</p>
<p>IFRS 13 Fair Value Measurement</p> <p>IFRS 13: defines fair value sets out in a single IFRS a framework for measuring fair value, and requires disclosures about fair value measurements.</p> <p>Further details in the GAM: 4.167</p>	<p>Applies in full, although IAS 16 and IAS 38 have been adapted and interpreted for the public sector context to limit the circumstances in which a valuation is prepared under IFRS 13.</p>
<p>IFRS 15 Revenue from Contracts with Customers</p> <p>The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.</p> <p>Please find HM Treasury’s application guidance at this link</p> <p>Further details in the GAM: 4.70 Also see:</p>	<p>Applies in full, with the following interpretations and adaptations:</p> <p>Adaptations The definition of a contract is expanded to include legislation and regulations which enables an entity to receive cash or another financial asset from another entity that is not classified as a tax by ONS. The costs of preparing the legislation or regulations do not amount to assets under IFRS 15 (91-94). Where, by statute or approval from HM Treasury, an entity is permitted to retain the revenue from taxation, fines and penalties, this revenue shall be accounted for under IFRS 15 paragraph 15a.</p>

<p>IAS 20 Accounting for Government Grants and Disclosure of Government Assistance SIC 27 Evaluating the Substance of Transactions involving the Legal Form of a Lease</p>	<p>However, where entities receive revenue through taxation, fines and penalties which is wholly non-refundable and leads to no obligations, entities are not required to wait until all, or substantially all, of the promised revenue has been received to recognise the revenue. In these instances, entities should recognise revenue when an equivalent to a taxable event has occurred, the revenue can be measured reliably, and it is probable that the assisted economic benefits from the taxable event will flow to the collecting entity. All these elements are required to be satisfied</p> <p>Interpretations Upon transition, the option to restate using IAS 8 has been withdrawn. Entities must recognise the difference between the previous carrying amount and the carrying amount at the beginning on the annual reporting period that includes the date of initial application in the opening general fund within taxpayers' equity (or other component of equity, as appropriate). The practical expedient only to assess open contracts must be exercised.</p>
<p>IFRS 16 Leases</p> <p>The objective of IFRS 16 is to report information that faithfully represents lease transactions and provide a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognise assets and liabilities arising from a lease.</p> <p>Further details in the GAM: 2.78, 4.106, 4.109, 4.235, 4.245, 4.300 Chapter 4 Annex 11</p>	<p>The option to apply the election in IFRS 16 (5 (a)) has been withdrawn. All entities must apply the recognition and measurement exemption for short-term leases in accordance with IFRS 16 paragraphs 6 to 8.</p> <p>Where lessees cannot readily determine the interest rate implicit in the lease, they are required to use the HM Treasury discount rates promulgated in PES papers as their incremental borrowing rate. However, if an entity can demonstrate that another discount rate would more accurately represent their incremental borrowing rate (for example, if it undertakes external borrowing independently of the Exchequer), it should use that discount rate as their incremental borrowing rate.</p>

	<p>The option to reassess whether a contract is, or contains, a lease at the date of initial application has been withdrawn. All entities should use the practical expedient detailed in IFRS 16 (C3). There is a presumption that entities have been applying guidance in IAS 17 and IFRIC 4 appropriately in the past. Therefore, any known misapplication of the definition of a lease guidance should be corrected in accordance with IAS 8.</p> <p>The subsequent measurement basis for right-of-use assets shall be consistent with the principles for subsequent measurement of property, plant and equipment set out in the adaptations to IAS 16.</p> <p>Upon transition, the accounting policy choice to retrospectively restate in accordance with IAS 8 has been withdrawn. All entities applying this Manual shall recognise the cumulative effects of initially applying IFRS 16 recognised at the date of initial application as an adjustment to the opening balances of taxpayers' equity (or other component of equity, as appropriate) per IFRS 16(C5(b)). Upon transition, entities should measure the right-of-use asset for leases previously classified as operating leases per IFRS 16((C8 (b)(ii))); at an amount 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.</p> <p>Upon transition all entities applying the FReM must apply the following options for leases previously classified as operating leases:</p> <p>No adjustments for leases for which the underlying asset is of low value that will be accounted for applying IFRS 16 (6) per (IFRS 16 C9 (a))</p> <p>No adjustment for leases for which the lease term ends within 12 months of the date of initial application. (IFRS 16 C10 (c))</p> <p>There remains a requirement to include</p>
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	<p>costs associated with these leases in the short-term leases expense disclosure. Use hindsight in determining the lease term if the contract contains options to extend or terminate the lease. (IFRS 16 C10 (e))</p> <p>Additionally, IFRS 16 is adapted by the FReM as follows;</p> <p>The definition of a contract is expanded to include intra-UK government agreements where non-performance may not be enforceable by law.</p> <p>Peppercorn leases are defined as leases for which the consideration paid is nil or nominal (that is, significantly below market value). Peppercorn leases are in the scope of IFRS 16 if they meet the definition of a lease in all aspects apart from containing consideration. All lessees shall account for peppercorn leases using the following criteria:</p> <p>Recognise a right-of-use asset and initially measure it at current value in existing use or fair value, depending on whether the right-of-use asset will be held for its service potential and as set out in paragraphs 10.1.4 and 10.1.6 of the FReM. If the right of use asset meets the definition of a heritage asset it should be initially measured in accordance with paragraphs 10.1.34 to 10.1.39 of the FReM.</p> <p>Recognise a lease liability measured in accordance with IFRS 16.</p> <p>Recognise any difference between the carrying amount of the right-of-use asset and the lease liability as income as required by IAS 20 as interpreted by the FReM.</p> <p>Subsequently measure the right-of-use asset following the principles of IFRS 16 as adapted and interpreted by the FReM. Upon transition, any peppercorn leases that were not previously classified as finance leases under IAS 17, including those considered to be outside the scope of IAS 17 courtesy of not involving an exchange of consideration, shall be recognised as follows:</p>
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	<p>The right-of-use asset shall be measured at current value in existing use or fair value, depending on whether the right-of-use asset will be held for its service potential and as set out in paragraphs 10.1.4-10.1.6 of the FReM, as at the date of initial application; If the right of use asset meets the definition of a heritage asset, it should be initially measured in accordance with guidance on heritage assets in the FReM.</p> <p>The lease liability shall be measured at the present value of lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.</p> <p>The difference between the carrying amount of the right-of-use asset and lease liability shall be included as part of the adjustment to the opening balances of taxpayers' equity (or other component of equity, as appropriate) per IFRS 16 (C5(b)).</p>
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International Accounting Standards (IAS)

<p>IAS 1 Presentation of Financial Statements</p> <p>IAS 1 prescribes the basis for presentation of general purpose financial statements to ensure comparability with the entity's financial statements of previous periods and with the financial statements of other entities. The Standard sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.</p> <p>Further details in the GAM: 4.18, 5.9, 5.29, 5.71, 5.127, 5.186</p>	<p>Applies in full with the following interpretations:</p> <p>References in IAS 1 to 'present fairly' and 'fair presentation' should be read to mean 'give a true and fair view' and 'truthful and fair presentation' to comply with the requirements of the Companies Act 2006. In addition to naming the legislative authority for producing the accounts, the notes to the accounts must disclose the basis of preparation of the financial statements as being in accordance with the GAM.</p> <p>The following provide the interpretations of going concern for the public sector context: For entities that are not trading funds, the anticipated continuation of the provision of a service in the future, as evidenced by inclusion of financial provision for that</p>
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	<p>service in published documents, is normally sufficient evidence of going concern. However, a trading entity needs to consider whether it is appropriate to continue to prepare its financial statements on a going concern basis where it is being, or is likely to be, wound up.</p> <p>Entities whose SoFPs show net liabilities must prepare financial statements on the going concern basis unless DHSC considers the going concern basis inappropriate.</p> <p>Where an entity ceases to exist, it must consider whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern for the final set of financial statements.</p> <p>DHSC group bodies (other than NHS providers) must prepare a SoCNE, except that DHSC ALBs may prepare a SoCI if more appropriate. NHS providers must prepare a SoCI.</p> <p>The financing of public sector entities is ultimately tax-based and an IAS 1 based notion of capital does not apply to many of them. Capital disclosures (IAS 1.79-80A and 134-136A) are therefore not required. The flexibility to select the order of presentation of line items in the SoFP and to present on a liquidity basis is withdrawn. DHSC group bodies must prepare their SoFP in accordance with this manual and their respective pro forma accounts. For consistency across the DHSC group, the option under IAS 1 to present the information as two statements has been withdrawn.</p>
<p>IAS 2 Inventories</p> <p>The objective of IAS 2 is to prescribe the accounting treatment for inventories. It provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value.</p>	<p>Applies with the following interpretation: In addition to the types of inventories identified in IAS 2, central government has categories of inventories for which IAS 2 may not adequately cover the accounting treatment.</p> <p>Where DHSC and UKHSA hold inventories considered to be “strategic” in the context of stockpiling for national emergencies,</p>

<p>Further details in the GAM: 5.149</p>	<p>they must be treated as non-current assets.</p>
<p>IAS 7 Statement of Cash Flows</p> <p>The objective of IAS 7 is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a SoCF that classifies cash flows during the period from operating, investing and financing activities.</p> <p>Further details in the GAM: 5.155, 5.188</p>	<p>Applies in full for the DHSC group. Applies with interpretation for core DHSC to include disclosure of cash flows with the Consolidated Fund.</p>
<p>IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors</p> <p>The objective of IAS 8 is to prescribe the criteria for selecting and changing accounting policies, and the accounting treatment and disclosure of changes in accounting policies, accounting estimates and corrections of errors.</p> <p>Further details in the GAM: 4.42, 4.48, 5.34</p>	<p>Applies in full.</p>
<p>IAS 10 Events after the Reporting Period</p> <p>This Standard prescribes when an entity should adjust its financial statements for events after the reporting period and the disclosures required.</p> <p>Further details in the GAM: 4.408, 5.243</p>	<p>Applies in full with the following interpretations: Public Dividend Capital is not a financial instrument within the meaning of IAS 32. Unpaid dividends in respect of PDC shall continue to be recognised as liabilities for the reporting period. Where entities' accounts are certified by the Comptroller and Auditor General (C & AG), the date of the Accounting Officer's authorisation for issue of the financial statements is normally the same as the date of the Certificate and Report of the C & AG. The date of authorisation for issue must be included in the Annual Report and Accounts, but not on the title page.</p>
<p>IAS 12 Income Taxes</p>	<p>Applies in full where tax liabilities on income are required.</p>

<p>The objectives of IAS 12 are to specify the accounting for current and deferred tax.</p>	
<p>IAS 16 Property, Plant and Equipment</p> <p>The objective of IAS 16 is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity’s investment in its property, plant and equipment and the changes in such investment.</p> <p>Further details in the GAM: 4.167, Chapter 4 Annex 4 - Valuation Issues, 5.220</p> <p>Also, see: IAS 23 Borrowing Costs IAS 36 Impairment of Assets IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. IFRIC 1 Changes in Existing Decommissioning, Restoration & Similar Liabilities IFRIC 12 Service Concession Arrangements</p>	<p>Applies in full with the following interpretations and adaptations:</p> <p>Adaptations: Assets which are held for their service potential (i.e. operational assets) and are in use must be measured at current value in existing use. For non-specialised assets current value in existing use should be interpreted as market value for existing use. In the Royal Institution of Chartered Surveyors (RICS) Red Book, this is defined as Existing Use Value (EUV). For specialised assets current value in existing use should be interpreted as the present value of the asset’s remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.</p> <p>Assets which were most recently held for their service potential but are surplus must be valued at current value in existing use as above if there are restrictions on the entity or the asset which would prevent access to the market at the reporting date. If the entity could access the market then the surplus asset must be valued at fair value using IFRS 13.</p> <p>Assets which are not held for their service potential must be valued in accordance with IFRS 5 or IAS 40 depending on whether the asset is actively held for sale. Where such assets are surplus and do not fall within the scope of IFRS 5 or IAS 40, they must be valued at fair value applying IFRS 13.</p> <p>Interpretations: All tangible non-current assets shall be carried at either current value in existing use or fair value at the reporting date. The option in IAS 16 to measure at cost is withdrawn, as is the option to value only certain classes of assets. It is not necessary to disclose the historical cost carrying amounts.</p>

<p>IAS 19 Employee benefits</p> <p>IAS 19 prescribes the accounting and disclosures for all types of employee benefits:</p> <p>short-term benefits, for example salaries and wages, social security contributions, paid leave and non-monetary benefits post-employment benefits that result from employment, for example retirement benefits</p> <p>other long-term benefits, for example long service or sabbatical leave termination benefits, that is, that arise directly from termination rather than from employment.</p> <p>It requires an entity to recognise the cost of providing employee benefits in the period in which the benefit is earned rather than when paid or payable</p> <p>Further details in the GAM: 4.139, 5.54, 5.66, 5.176 Also see IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</p>	<p>Applies with the following interpretations:</p> <p>DHSC group bodies shall account for the NHS Superannuation Scheme, the Principal Civil Service Pension Scheme and the Civil Servant and Other Pension Scheme (known as ‘alpha’) as defined contribution plans.</p> <p>IAS 19 requires the present value of defined benefit obligations and, if applicable the fair value of the plan's assets to be determined with sufficient regularity that the amounts recognised in the financial statements do not differ materially from those determined at the reporting period date. This shall be interpreted to mean that the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years. The results of the actuarial valuations may not necessarily feed into the annual report and accounts in the same financial year due to timing differences; instead, entities must ensure the IAS 19 para 58 requirement of amounts recognised being materially correct is met. Acceptable approximations shall include adjusting full valuation results using the latest available membership data</p> <p>DHSC group bodies with staff who are in funded schemes, for instance the local government scheme, must use the discount rate determined in accordance with IAS 19, as advised by the scheme's actuary.</p> <p>Voluntary terminations with agreed terms under a pension scheme must be treated as post-employment benefits and so discounted using the rate applicable to pensions of that scheme. Involuntary terminations and voluntary terminations whose terms are available for a short time only must be treated as termination benefits and so discounted using the rate for provisions.</p>
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<p>IAS 20 Accounting for Government Grants and Disclosure of Government Assistance</p> <p>The objective of IAS 20 is to prescribe the accounting treatment for government grants and the disclosures about other government assistance.</p> <p>Further details in the GAM: 4.118 Also see SIC 10 Government Assistance – No Specific Relation to Operating Activities IFRIC 12 Service Concession Arrangements</p>	<p>Applies in full with the following interpretations:</p> <p>The option provided in IAS 20 to offset a grant for acquisitions of an asset against the cost of the asset has been withdrawn. The option provided in IAS 20 to defer grant income relating to an asset is restricted to income where the funder imposes a condition. Where assets are financed by government grant (not a grant from a sponsoring department to an NDPB) or donation (including lottery funding), the funding element is recognised as income and taken through the SoCNE / SoCI. To defer this income, a condition imposed by the funder must be: a requirement that the future economic benefits embodied in the grant/donation are consumed as specified by the grantor/donor or must be returned to them (for example, a grant that is conditional on the construction of an asset). Trading Funds, where they have the consent of the relevant authority, need not apply this interpretation.</p> <p>A grant, contribution or donated asset may be received subject to a condition that it be returned to the transferor if a specified future event does or does not occur (for example, a grant may need to be returned if the entity ceases to use the asset purchased with that grant for a purpose specified by the transferor). In these cases, a return obligation does not arise until such time as it is expected that the condition will be breached, and a liability is not recognised until that time. Such conditions do not prevent the grant, contribution or donated asset being recognised as income in the SoCNE / SoCI.</p> <p>Grant-in-aid is provided to match the recipient's cash needs and is to be accounted for on a cash basis. Any exceptions to this treatment must be agreed with DHSC and HM Treasury.</p>
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<p>IAS 21 The Effects of Changes in Foreign Exchange Rates</p> <p>The objective of IAS 21 is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentational currency.</p> <p>Further details in the GAM: 5.188</p> <p>Also see: SIC 7 Introduction of the Euro IFRIC 16 Hedges of a Net Investment in a Foreign Operation</p>	<p>Applies in full with the following interpretation: The presentational currency will be the same as the functional currency i.e. pounds sterling.</p>
<p>IAS 23 Borrowing Costs</p> <p>The objective of IAS 23 is to prescribe the accounting for borrowing costs.</p> <p>Further details in the GAM: 4.231</p> <p>Also see: IAS 16 Property, Plant and Equipment IAS 17 Leases IFRS 9 Financial Instruments IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities</p>	<p>Applies in full with the following interpretation: Borrowing costs in respect of qualifying assets held at fair value shall be expensed.</p>
<p>IAS 24 Related Party Disclosures</p> <p>The objective of IAS 24 is to ensure that an entity’s financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.</p>	<p>Applies in full with the following interpretations:</p> <p>For the purposes of IAS 24 paragraph 9(a), the related party will be the chair, chief executive or members of the board of directors, as named in the directors’/members’ report (see paragraph 3.52). DHSC group bodies must disclose the Department of Health and Social Care as the parent department; a note of the main</p>

<p>Further details in the GAM: 5.246</p>	<p>entities within the public sector with which the body has had dealings (no information needs to be given about these transactions), and details of material transactions between the body and individuals who are regarded as related parties.</p> <p>The requirement to disclose the compensation paid to management, expense allowances and similar items paid in the ordinary course of an entity's operations will be satisfied by the disclosures made in the notes to the accounts and in the remuneration report. In considering materiality, regard should be had to the definition in IAS 1, which requires materiality to be judged 'in the surrounding circumstances'. As a result, materiality should thus be judged from the viewpoint of both the entity and the related party, whether it is an individual or a corporate body.</p>
<p>IAS 26 Accounting and Reporting by Retirement Benefit Plans</p> <p>The objective of IAS 26 is to provide guidance on the form and content of the financial statements prepared by retirement benefit plans.</p>	<p>Not relevant.</p>
<p>IAS 27 Separate Financial Statements</p> <p>IAS 27 requires parent undertakings to provide information about the economic activities of their group as a single economic entity in consolidated financial statements.</p> <p>Further details in the GAM: 4.332 Also see: SIC 12 Consolidation – Special Purpose Entities</p>	<p>Applies with the following adaptation: The presentation of separate, non-consolidated financial statements will only be applied in full if the investment has not been designated for consolidation by order of the relevant authority under statutory instrument.</p>
<p>IAS 28 Investments in Associates and Joint Ventures</p>	<p>Applies with the following adaptations: In accordance with the principles set out in Managing Public Money, executive non-</p>

<p>The objective of IAS 28 is to reflect the effect of investments in associates and joint ventures where the reporting entity is partly accountable for the associate’s activities.</p> <p>Further details in the GAM: 4.319, 4.350, 5.200</p>	<p>departmental and similar public bodies classified to central government by the Office for National Statistics will normally be controlled for accountability purposes by only one department. Therefore, the public sector entity will be included in one department’s consolidation order and will be consolidated by that department in accordance with IFRS 10.</p> <p>Where DHSC has an investment in another public sector entity that has not been designated for consolidation, it must be reported following the requirements of IFRS 9. This includes all interest in bodies classified as public corporations by the ONS, which are within the scope of Managing Public Money principles. DHSC agencies must follow the requirements of IAS 28 with respect to public sector entities only if the entities are within DHSC’s consolidation boundary. DHSC and DHSC agencies must apply IAS 28 without adaptation to bodies classified to the private sector and rest of the world by ONS.</p> <p>NHS bodies and DHSC ALBs (excluding agencies) must apply IAS 28 without adaptation.</p>
<p>IAS 29 Financial Reporting in Hyperinflationary Economies</p> <p>IAS 29 requires the financial statements of an entity whose functional currency is that of a hyperinflationary economy to be stated in terms of the measuring unit current at the end of the reporting period.</p>	<p>Applies in full with the following interpretation:</p> <p>As all DHSC group bodies have a functional currency of pounds sterling, HM Treasury (via DHSC) will notify classification of the economy as hyperinflationary if appropriate.</p>
<p>IAS 32 Financial Instruments: Disclosure and Presentation</p> <p>IAS 32 establishes principles for presenting financial instruments as liabilities or equities and for offsetting financial assets and financial liabilities.</p>	<p>Applies in full with the following interpretation:</p> <p>Public dividend capital (PDC) is not an equity instrument as defined by the IAS. It must be presented as a form of financing in the SoFP. Dividends on PDC must be presented as a form of financing in the SoCNE / SoCI and accounted for where appropriate in the SoFP.</p>

<p>Further details in the GAM: 4.274, Chapter 4 Annex 6: Financial Instruments Also see: IFRS 9 Financial Instruments FRS 7 Financial Instruments: Disclosures</p>	<p>IAS 32 is adapted as follows</p> <p>References to ‘contract’ and ‘contractual’ within IAS 32 include legislations and regulations which give rise to arrangements that in all other respects would meet the definition of a financial instrument under IAS 32.11 and, do not give rise to transactions classified as a tax by the Office of National Statistics, except for revenue from taxation, fines and penalties that is recognised due to the IFRS 15 adaptation to the definition of a contract.</p>
<p>IAS 33 Earnings per Share</p> <p>The objective of IAS 33 is to prescribe principles for the determination and presentation of earnings per share to improve performance comparisons.</p>	<p>Not relevant.</p>
<p>IAS 34 Interim Financial Reporting</p> <p>IAS 34 prescribes the minimum content of an interim financial report and the principles for recognition and measurement for an interim period. Also see: IFRIC 10: Interim Financial Reporting and Impairment.</p>	<p>DHSC group bodies are not required to publish interim financial reports at present. Applies in full to a body that elects to do so.</p>
<p>IAS 36 Impairment of Assets</p> <p>The objective of IAS 36 is to ensure that assets are carried at no more than their recoverable amount.</p> <p>Further details in the GAM: 4.216 Also see: IAS 16 Property, Plant and Equipment IAS 38 Intangible Assets IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities IFRIC 10 Interim Financial Reporting and Impairment</p>	<p>Applies in full with the following adaptations and interpretations: Adaptations</p> <p>References in IAS 36 to the recognition of an impairment loss of a revalued asset being treated as a revaluation decrease to the extent that that impairment does not exceed the amount in the revaluation surplus for the same asset, are adapted such that only those impairment losses that do not result from a clear consumption of economic benefit or reduction of service potential (including as a result of loss or damage resulting from normal business operations) must be taken to the revaluation reserve. Impairment losses</p>

<p>IFRIC 12 Service Concession Arrangements</p>	<p>that arise from a clear consumption of economic benefit must be taken to the SoCNE / SoCI.</p> <p>Interpretations Where an asset is not held for the purpose of generating cash flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential.</p>
<p>IAS 37 Provisions, Contingent Liabilities and Contingent Assets</p> <p>The objective of IAS 37 is to ensure that provisions, contingent liabilities and contingent assets are appropriately recognised and measured, and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount.</p> <p>Further details in the GAM: Chapter 4 Annex 7 - Treasury Discount Rates, 5.168, 5.239</p> <p>Also see: IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</p>	<p>Applies in full with the following interpretation: Where the cash flows to be discounted are expressed in current prices, entities must use the real discount rates set by Treasury. Separate disclosure of information about a particular contingency need not be made if the information has a security marking.</p>
<p>IAS 38 Intangible Assets</p> <p>IAS 38 prescribes the measurement and accounting for intangible assets that are not specifically dealt with in another IFRS Standard. It requires an entity to recognise an intangible asset if, and only if, specific criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires specific disclosures about intangible assets.</p>	<p>Applies in full with the following adaptation:</p> <p>Following the initial recognition of an intangible asset, for subsequent measurement IAS 38 permits the use of either the cost or revaluation model for each class of intangible asset. Where an active (homogeneous) market exists, intangible assets other than those that are held for sale must be carried at current value in existing use at the reporting period date – that is, the cost option given in IAS 38 has been withdrawn</p>

<p>Further details in the GAM: 4.210 Also see: IAS 36 Impairment of Assets SIC 32 Intangible Assets – Web Site Costs</p>	<p>and the current value must be based on the market value in existing use. Where no active market exists, entities must revalue the asset, using indices or some suitable model, to the lower of depreciated replacement cost and value in use where the asset is income generating. Where there is no value in use, the asset must be valued using depreciated replacement cost.</p>
<p>IAS 39 Financial Instruments: Recognition and Measurement</p> <p>IAS 39 has been superseded by IFRS 9 Financial Instruments. IFRS 9 permits an entity to continue to apply the requirements of IAS 39 to a qualifying financial instrument that is part of a hedging relationship. The relevant sections of IAS 39 have therefore been retained.</p> <p>Further details in the GAM: 4.274, Chapter 4 Annex 6: Financial Instruments Also see: IFRS 9 Financial Instruments IAS 32 Financial Instruments: Presentation IFRS 7 Financial Instruments: Disclosures IFRIC 16 Hedges of a Net Investment in a Foreign Operation</p>	<p>HM Treasury has withdrawn the option under IFRS 9 to apply the requirements of IAS 39 to qualifying financial instruments in a hedging relationship. DHSC group bodies therefore may not apply IAS 39.</p>
<p>IAS 40 Investment Property</p> <p>The objective of IAS 40 is to prescribe the accounting treatment for investment property and related disclosure requirements.</p> <p>Further details in the GAM: 4.251</p>	<p>Applies in full with the following interpretations:</p> <p>All investment property must be accounted for under the fair value model – that is, the option given in IAS 40 to adopt the cost model has been withdrawn. IAS 40 applies in full to all DHSC group bodies that hold (or are constructing or developing) properties only for the purpose of earning rentals or for capital appreciation or both. If earning rentals were an outcome of a regeneration policy, for example, the properties concerned would be accounted for under IAS 16 and note IAS 40.</p>

<p>IAS 41 Agriculture</p> <p>The objective of IAS 41 is to prescribe the accounting treatment and disclosures related to agricultural activity, which is the management of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.</p>	<p>Not relevant.</p>
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IFRS Interpretations Committee (IFRIC) Interpretations	
<p>IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities</p> <p>IFRIC 1 prescribes the accounting for changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources, or a change in the discount rate.</p>	<p>Applies in full including in relation to IFRS 16.</p>
<p>IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments</p> <p>The entity must consider all the terms and conditions of the financial instrument in determining its classification as a financial liability or equity.</p>	<p>Not relevant.</p>
<p>IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</p> <p>The contributor to a fund shall recognise its obligation to pay decommissioning costs as a liability and recognise its interest in the fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay.</p>	<p>Not relevant.</p>
<p>IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</p> <p>A liability for waste management costs for historical household equipment does not arise as the products are manufactured or sold. There is no obligation unless and until a market share exists during the measurement period.</p>	<p>Not relevant.</p>

<p>IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</p> <p>In the reporting period in which the entity first adopts IAS 29, the entity shall apply the requirements of IAS 29 as if the economy had always been hyperinflationary. Also see: IAS 29: Financial Reporting in Hyperinflationary Economies</p>	<p>Unlikely to be relevant.</p>
<p>IFRIC 10 Interim Financial Reporting and Impairment</p> <p>An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. See also: IAS 34 Interim Financial Reporting.</p>	<p>DHSC group bodies are not required to publish interim financial reports at present. Applies in full to a body that elects to do so.</p>
<p>IFRIC 12 Service Concession Arrangements</p> <p>IFRIC 12 deals primarily with public-to-private service concession arrangements for the delivery of public services. It applies only to concession agreements where the use of the infrastructure is controlled by the grantor.</p> <p>Further details in the GAM: Chapter 4 Annex 5: Accounting requirements for PFI/LIFT schemes Also see: SIC 29 Service Concession Arrangements: Disclosures</p>	<p>The FReM interprets IFRIC 12 to apply ‘mirror accounting’ arrangements to infrastructure service concession arrangements. In practice this means that the assets of most PFI schemes and many NHS LIFT schemes will be accounted for as Property, Plant and Equipment. The application of this interpretation is complex. DHSC group bodies should refer to both Treasury’s guidance ‘Accounting for PPP arrangements including PFI contracts under IFRS’ in chapter 10 of the FReM. The DHSC guidance on accounting for PFI and NHS LIFT under IFRS is available on request from the GAM shared mailbox</p>
<p>IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</p> <p>An entity shall determine the availability of a refund or a reduction in future contributions in accordance with the terms and conditions of</p>	<p>Potentially relevant where DHSC group bodies have pension assets and liabilities for staff who remain in a Local Government Pension Scheme.</p> <p>The FReM Chapter 6 lists the adaptations and interpretations of IAS</p>

<p>the plan and any statutory requirements in the jurisdiction of the plan. An entity shall analyse any minimum funding requirement at a given date into contributions that are required to cover (a) any existing shortfall for past service on the minimum funding basis and (b) the future accrual of benefits. If an entity has an obligation under a minimum funding requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received, the entity shall determine whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan. Also see: IAS 19 Employee Benefits IAS 37 Provisions, Contingent Liabilities and Contingent Assets</p>	<p>19 relevant to the public sector.</p>
<p>IFRIC 16 Hedges of a Net Investment in a Foreign Operation</p> <p>Hedge accounting may be applied only to the foreign exchange differences arising between the functional currency of the foreign operation and the parent entity's functional currency. Also see: IFRS 9 Financial Instruments IAS 21 The Effects of Changes in Foreign Exchange Rates</p>	<p>Unlikely to be relevant.</p>
<p>IFRIC 17 Distributions of Non-cash Assets to Owners</p> <p>This Interpretation clarifies how an entity should measure distributions of assets, other than cash, when it pays dividends to its owners.</p>	<p>Applies in full.</p>
<p>IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments</p>	<p>Unlikely to be relevant.</p>

<p>IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine</p>	<p>Not relevant.</p>
<p>IFRIC 21 Levies</p>	<p>Applies in full.</p>
<p>IFRIC 22 Foreign Currency Transactions and Advance Consideration</p> <p>This Interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or liability arising from the payment or receipt of advance consideration in a foreign currency.</p>	<p>Applies in full.</p>
<p>IFRIC 23 Uncertainty over Income Tax Treatments</p> <p>This Interpretation clarifies the accounting treatment when there is uncertainty about income tax treatments under IAS 12.</p> <p>It addresses; when an entity should consider treatments separately, the assumptions to be made about the examination of tax treatments, determination of tax profit, bases, credits and rates and, approach to change in circumstances</p> <p>Also see: IAS 12, Income Taxes</p>	<p>Applies in full.</p>
<p>Standards Interpretation Committee (SIC) Interpretations</p>	
<p>SIC 7 Introduction of the Euro</p> <p>The requirements of IAS 21 regarding the translation of foreign currency transactions and financial statements of foreign operations should be strictly applied to the changeover to the Euro.</p>	<p>Not relevant.</p>

<p>SIC 10 Government Assistance – No Specific Relation to Operating Activities</p> <p>Government assistance to entities meets the definition of government grants in IAS 20 even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. Such grants shall not be credited directly to equity.</p> <p>Also see: IAS 20 Accounting for Government Grants and Disclosure of Government Assistance</p>	<p>Applies in full with the following interpretations: Parliamentary Supply does not fall within the meaning of government grants. Entities receiving a grant to fund the purchase of a specific asset must credit that grant to the revenue account, unless such conditions are attached to the grant that it cannot be recognised immediately (in which case the value of the receipt will be credited to deferred income).</p>
<p>SIC 25 Income Taxes – Changes in the Tax Status of an Entity or its Shareholders</p> <p>A change in tax status does not give rise to increases or decreases in amounts recognised directly in equity unless the consequences relate to transactions and events that result in a direct charge or credit to equity.</p>	<p>Not relevant.</p>
<p>SIC 29 Service Concession Arrangements: Disclosures</p> <p>SIC 29 lists the disclosure requirements for service concession arrangements.</p> <p>Further details in the GAM: Chapter 4 Annex 5: Accounting requirements for PFI/LIFT schemes Also see: IFRIC 12 Service Concession Arrangements.</p>	<p>The disclosures must be provided for all PFI and LIFT schemes where they are accounted for as service concession arrangements.</p>
<p>SIC 32 Intangible Assets – Web Site Costs</p> <p>SIC 32 lays down the conditions for an entity to recognise internal web site development costs as an intangible asset</p> <p>Further details in the GAM: 4.210 Also see: IAS 38 Intangible assets</p>	<p>Applies in full.</p>

Chapter 4 Annex 2: IFRS Standards and amendments issued but not yet adopted in the FReM

4.417 The following table presents a list of recently issued IFRS Standards and amendments that have not yet been adopted within the FReM, and are therefore not applicable to DHSC group accounts in 2022-23.

Standards issued or amended but not yet adopted in FReM	
IFRS 14 Regulatory Deferral Accounts	Not UK-endorsed. Applies to first time adopters of IFRS after 1 January 2016. Therefore, not applicable to DHSC group bodies.
IFRS 17 Insurance Contracts	Application required for accounting periods beginning on or after 1 January 2021. Standard is not yet adopted by the FReM which is expected to be from April 2025: early adoption is not permitted.

Chapter 4 Annex 3: Departures from the FReM

4.418 HM Treasury accepts that the following are fundamental differences within the DHSC group leading to some agreed departures from the FReM.

FReM Requirement	Departure	Applicable to
Companies Act 2006 disclosures on directors' benefits and remuneration	The information on directors' other benefits required by section 413 of the Companies Act 2006 (set out in paragraphs 5.71 to 5.72) must be disclosed in a note to the accounts, separate from the directors' remuneration report. The requirements for the directors' remuneration report are to be presented separately as part of the annual report, as guided by the FT ARM. The table in Chapter 2 Annex 1 lists the parts of the Companies Act that apply and where guidance can be found in the FT ARM.	NHS foundation trusts only
Public Dividend Capital	Public Dividend Capital issued by the department on the creation of new NHS trusts, or written off on the dissolution of NHS trusts, is debited/credited to the General Fund rather than the Consolidated Statement of Comprehensive Net Expenditure.	Department of Health and Social Care only
FReM 1.2.1: "...all entities ('reporting entities'), and to funds, flows of income and expenditure and any other accounts (referred to collectively as 'reportable activities') that are prepared on an accruals basis and consolidated within Whole of Government Accounts (with the exception of the accounts of any reportable activities that are not covered by an Accounts Direction)";	Receipts of National Insurance Contributions from the National Insurance Fund are recognised on a cash, rather than accruals, basis.	Department of Health and Social Care only

Chapter 4 Annex 4 - Valuation Issues

- 4.419 In considering how best to apply the valuation requirements of IAS 16, Property, Plant and Equipment, to ensure that the SoFP gives a true and fair view of the value of the assets at the reporting period, DHSC group bodies should consider the following guidance (together with extant Treasury guidance).
- 4.420 Assets which are held for their service potential (i.e. operational assets used to deliver either front line services or back office functions) must be measured at their current value in existing use.
- 4.421 For “in use” non-specialised property assets current value in existing use should be interpreted as market value for existing use. In the Royal Institution of Chartered Surveyors; (RICS) “Red Book” (RICS Appraisal and Valuation Standards), this is defined as Existing Use Value (EUV).

Modern Equivalent Asset (MEA) valuations

- 4.422 For specialised properties (i.e. those for which no active market exists), depreciated replacement cost is considered to be a satisfactory approximation of current value in existing use.
- 4.423 Within that methodology, the MEA concept is applied: the “replacement cost” is based on the cost of a modern replacement asset that has the same productive capacity as the property being valued.

Recognition and measurement

- 4.424 There is no pre-determined frequency with which assets must be re-valued.
- 4.425 Instead the Standard requires that asset values should be kept up to date and that the frequency of revaluation will need to reflect the volatility of asset values.
- 4.426 Where assets are subject to significant volatility, then annual revaluations may be required. Conversely, where changes in asset values are insignificant then a revaluation may be necessary only every 3 or 5 years.
- 4.427 DHSC group bodies must value their property using the most appropriate valuation methodology. Such methods might include:
- a quinquennial valuation supplemented by annual indexation and no interim professional valuation

- annual valuations, or
 - a rolling programme of valuations of properties (whether specialised or non-specialised).
- 4.428 It is for valuers, using the RICS Red Book, and following discussions with the entity, to determine the most appropriate methodology for obtaining either a current value in existing use or a fair value.
- 4.429 Where a valuer, following discussion with the entity, determined that depreciated replacement cost (DRC) is the most appropriate measure of current value in existing use, entities and their valuers should have regard to the RICS Valuation Information Paper No. 10. VIP extracts [Other detailed valuation guidance](#) has been published by HM Treasury.
- 4.430 Where DRC is used as the valuation methodology, entities should normally value a modern equivalent asset in line with the Red Book.
- 4.431 Any plans to value a reproduction of the existing asset instead must be discussed with the relevant national body or DHSC sponsor to determine whether such an approach is appropriate to the entity's circumstances.
- 4.432 Where DRC is used as the valuation methodology, entities must use the "instant build" approach.
- 4.433 Generally, the valuation should be gross of VAT, however circumstances may arise where the asset would be more appropriately valued net of VAT. For instance, entities may recover VAT on payments for certain contracted-out services, including the provision of a fully managed and serviced building under a PFI.
- 4.434 When revaluing assets arising from a PFI project, entities may take the view that this should be based on a value excluding recoverable VAT, reflecting the cost at which the service potential would be replaced by the PFI operator.
- 4.435 PFI assets must only be revalued exclusive of recoverable VAT where there is clear evidence that this is appropriate, which must be to the satisfaction of local auditors. Where an asset was not previously acquired through a route that permits VAT to be recoverable, and there is no clear indication that VAT would be recoverable on any replacement, the asset must be valued inclusive of VAT.
- 4.436 Where DRC is used as the valuation methodology, the choice of an alternative site will normally hinge on the policy in respect of the locational requirements of the service that is being provided.

- 4.437 Where the practical requirements of healthcare delivery, for example, require that a hospital is located on the same geographical site it now occupies, the valuation must be based on that site and not an alternative.
- 4.438 A valuation on an alternative site basis may however be appropriate where it is clear that the alternative would offer advantages in serving the target population.
- 4.439 Valuation is ultimately a matter for local valuation experts.
- 4.440 The cost of enhancements to existing assets (such as building of a new wing within an existing hospital) must be capitalised during the construction phase as an asset under construction.
- 4.441 At the first valuation after the asset is brought into use, any write down of cost must be treated as an impairment and charged to the revenue account.

Disclosure

4.442 Paragraph 10.1.12 of the FReM requires entities to:

- disclose in the accounting policies note the fact that in use assets are carried at current value in existing use. Entities must also provide information about the approach to valuing their estates, including a statement (where applicable) that alternative sites have been used in DRC valuations
- disclose in the notes on property, plant and equipment the date of the last valuations of those property assets that are subject to revaluation, and the names and qualifications of the valuer, and
- discuss in the performance report, where they hold extensive estates: their estate management strategy, the indicative alternative use values provided by the valuer as part of the routine valuation work, and what those alternative use values mean in terms of their estate management policy.

Equipment

- 4.443 The accounting policy remains that equipment is carried at current value in existing use. The main consideration is that no material difference should arise in the financial statements as a consequence of the use of depreciated historical cost in preference to other possible measures of current cost, including indexation.
- 4.444 Disclosure must be made in the accounting policies note that assets which are held for their service potential (i.e. operational assets) and are in use, are

measured at current value in existing use. For non-specialised assets current value in existing use is interpreted as market value for existing use.

- 4.445 Information must also be given about any significant estimation techniques, if applicable.

Chapter 4 Annex 5: Accounting requirements for PFI/LIFT schemes

PFI and LIFT

- 4.446 The relevant standards are IFRIC 12, Service Concession Arrangements, SIC 29, Service Concession Arrangements: Disclosures, IPSAS 32, Service Concession Arrangements: Grantor and IFRS 16 Leases.
- 4.447 To determine the appropriate accounting treatment of a PFI scheme, the DHSC group bodies must, in the first instance, determine whether the scheme falls within the scope of IFRIC 12.
- 4.448 A scheme will be within the IFRIC's scope where an infrastructure asset is constructed or acquired for the scheme, or is a pre-existing asset of the entity or of the operator and:
- the entity controls or regulates what services the operator must provide with the property, to whom it must provide them and at what price, and
 - the entity controls – through beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement (in accordance with paragraph 6 of the IFRIC, where the residual interest is not significant because the property has been used for its entire useful life during the scheme, this second criteria should be ignored).
- 4.449 Practitioners should note that although IFRIC 12 only applies to service concession arrangements which involve a public service obligation, the FReM includes an interpretation which extends the scope of infrastructure assets to also include 'permanent installations for military etc. operations and non-current assets used for administrative purposes in delivering services to the public'.
- 4.450 The FReM also extends the scope of the IFRIC to include assets that were previously owned by the operator. This manual follows the FReM and also adopts these interpretations.
- 4.451 Where a scheme falls within the scope of IFRIC 12, the grantor must recognise an asset of the infrastructure and a corresponding liability in accordance with 10.1.61 of the FReM.
- 4.452 Paragraph 10.1.55 of the FReM requires the asset and liability to be recognised when (a) it is probable that future economic benefits associated with the

infrastructure asset will flow to the entity and (b) the cost of the asset can be measured reliably.

- 4.453 An asset will be initially measured following the principles of IFRS 16, with the PFI liability accounting for the majority of the asset value as detailed in [Chapter 4 Annex 11](#).
- 4.454 Subsequently the infrastructure asset is accounted for as property, plant and equipment and/or an intangible asset.
- 4.455 The annual Unitary Payment must be separated between an amount for services and an amount for the property.
- 4.456 The services element must be recognised in operating expenses to reflect the services received.
- 4.457 The liability for the property element must be calculated and subsequently revalued in accordance with IFRS 16 leases. The application of IFRS 16 from 2023-24 relates to measurement only, so budgeting for an IFRIC 12 arrangement is not impacted by the application of IFRS 16 in this respect.
- 4.458 In transitioning to this approach of calculating the liability, Chapter 10 of the FReM provides guidance on how to remeasure the PPP liability and how to apply the cumulative catch up approach in this respect.
- 4.459 10.1.64 of the FReM confirms that the PPP liability will need to be remeasured as of 1 April 2023, regardless of whether a change to cashflows has taken place on 1 April, to include the indexation linked changes to payments for the capital / infrastructure element of the unitary payment which have taken effect since the arrangement commenced.
- 4.460 The guidance regarding establishment of an appropriate discount rate has not changed and therefore no change to the rate previously employed in calculating and amortising the PPP/PFI liability is required. Entities should continue to follow the guidance in paragraph 4.466.
- 4.461 The cumulative effect of the above calculation should be recognised as an adjustment to the opening balance of retained earnings (or other component of equity as appropriate) at 1 April 2023. In line with the wider cumulative catch up approach for the adoption IFRS 16 in 2022-23, comparative information is not restated.
- 4.462 For the subsequent measurement of the PPP/PFI liability, the measurement will reflect the principles of IFRS 16. When a change to the cashflows occurs

stemming from a change in variable payment dependent upon an index or rate, a lease liability remeasurement per paragraph 42 (b) of IFRS 16 takes place.

- 4.463 The FReM mandates the double entry resulting from such a lease liability remeasurement event, stipulating that the opposing entry to the debit / credit to PPP liability being a debit / credit to Finance Cost.
- 4.464 Further guidance will be provided in the GAM when HM Treasury have finalised their guidance relating to the application of IFRS 16 to the PFI liability. The Department is revising the PFI model employed by DHSC bodies to take account of the revised approach to calculating a PPP liability and will publish these and revised PFI guidance later in 2023.
- 4.465 If the scheme does not fall within the scope of IFRIC 12, then the entity should consider whether the scheme is a lease in accordance with IFRS 16.
- 4.466 Discounting: where a discount rate implicit in the transaction cannot be established, the Treasury discount rate used for investment appraisal and arriving at current asset/liability values is used. HM Treasury's ['The Green Book: appraisal and evaluation in central government'](#) refers to this.
- 4.467 DHSC group bodies must apply Treasury's guidance Accounting for PPP arrangements, including PFI contracts, under IFRS, in chapter 10 (10.1.49 et seq.) of the FReM.

Recognition of assets under PPP or PFI arrangements

- 4.468 The FReM notes that the grantor (under a service concession arrangement) should recognise the infrastructure as a non-current asset and value it in the same way as other non-current assets of that generic type.
- 4.469 The asset will be recognised when:
- it is probable that future economic benefits associated with the asset will flow to the organisation, and
 - the cost of the asset can be measured reliably.
- 4.470 The grantor must consider the asset recognition criteria, together with the specific terms and conditions of the binding arrangement, when determining whether to recognise the service concession asset during the period in which the asset is constructed or developed.

- 4.471 If the asset recognition criteria have been met, a work-in-progress service concession asset and associated liability must be recognised. If not and the grantor makes contributions to the operator in advance of the asset coming into use, the grantor must account for those payments as prepayments and then set against the liability established when the asset is recognised.
- 4.472 Any embedded derivatives in the arrangement and any guarantees to the operator must be accounted for under financial instrument standards (IAS 32 and IFRS 9).
- 4.473 Guidance on financial instruments is provided in [Chapter 4 Annex 6: Financial Instruments](#).
- 4.474 Enhancements/additions to on-SoFP PFI assets that are financed through the unitary charge must be recognised when they are provided.
- 4.475 Those financed by the DHSC group body must be recognised as its own asset.

Disclosures

- 4.476 The disclosure requirements for Public Private Partnerships are set out from paragraph 5.226.

Service concession arrangements in budgets

- 4.477 HM Treasury's budget regime reflects the treatment of economic activity in National Accounts.
- 4.478 In many cases, the treatment of PFI, LIFT and other service concessions will differ from IFRS treatment.
- 4.479 Under national frameworks and guidance, the contracts will be treated as 'off-balance sheet'.
- 4.480 Assets are recorded 'off-balance sheet' if both of the following conditions are met:
- the private partner bears the construction risk, and
 - the private partner bears at least one of either availability or demand risk, as designed in the contract.
- 4.481 The risks are defined as follows:

- (a) Construction risk covers events related to difficulties faced during construction and to the state of the involved asset(s) at the commencement of services. In practice it is related to events such as late delivery, non-respect of specified standards, significant additional costs, legal and environmental issues, technical deficiency and external negative events (including environmental risk) triggering compensation payments to third parties.
- (b) Availability risk covers cases where, during the operation of the asset, the responsibility of the partner is called upon because of insufficient management (“bad performance”), resulting in a volume of services lower than what was contractually agreed, or in services not meeting the quality standard specified in the contract.
- (c) Demand risk covers the variability of demand (higher or lower than expected when the contract was signed) irrespective of the performance of the private partner. In other words, a shift of demand cannot be directly linked to an inadequate quality of services provided by the partner. However, the quantitative and qualitative shortfalls have an impact on the effective use of the service and in some cases exert an eviction effect, but this primarily results from a bad management of the availability risk. Instead, it should result from other factors such as the business cycle, new market trends, a change in final users’ preferences or technological obsolescence. This is part of a usual “economic risk” borne by private entities in a market economy. Normally the demand risk is not applicable for contracts where the final user has no free choice as regards the asset-dependent service provided to them by the partner.

4.482 There are also other mechanisms, where government re-assumes the majority of risks of the project, which determine that the asset is recorded on the government’s balance sheet, independent of the risks above and these should be considered. These are:

- termination
- majority financing, where the government body finances the majority of the capital cost, and
- government guarantees.

4.483 For contracts that predate the adoption of IFRS, treatment under national frameworks and guidance may coincide with that that previously applied under UK GAAP.

4.484 For the purpose of assessing the budget treatment of ongoing contracts, entities must always refer to national guidance.

Budget adjustment in summarisation schedules

4.485 Entities are required to complete a note in summarisation schedules quantifying the differences between IFRIC 12 and national frameworks and guidance treatments.

4.486 The effect of this note is to calculate an adjustment to budget outturn to reflect the different treatment of service concession arrangements under national frameworks.

4.487 This comprises the following elements:

- (a) additions and disposals of service concession arrangement assets excluded from capital outturn
- (b) depreciation/impairment and other revenue charges arising from service concession arrangement assets excluded from resource outturn
- (c) revenue charges arising from payments in respect of 'off-balance sheet' assets (per national frameworks) included in resource outturn, and
- (d) increases in reversionary interest (also known as residual interest) relating to 'off-balance sheet' assets (per national frameworks) included in capital outturn.

4.488 The tables in summarisation schedules have been designed to make the distinction between the two reporting regimes clear. This is described in more detail in forms completion guidance.

Chapter 4 Annex 6: Financial Instruments

Introduction

- 4.489 This annex provides an overview of the accounting requirements for financial instruments and guidance on how to apply them.
- 4.490 It describes the applicable IFRS Standards and how they are adapted and interpreted in the HM Treasury's Financial Reporting Manual (FReM) and in this manual.
- 4.491 IFRS 9, Financial Instruments was published in its completed version in July 2014, with the intention of replacing the existing Standard, IAS 39, Financial Instruments: Recognition and Measurement.
- 4.492 It introduced a new approach to the classification and measurement of financial instruments, a new 'expected losses' model of impairment, and a less restrictive approach to hedge accounting.
- 4.493 Additionally, it made extensive amendments to IFRS 7, Financial Instruments: Disclosures.
- 4.494 The financial instruments standards are complex and this annex is limited to those requirements most likely to affect DHSC group bodies.

IFRS Standards

- 4.495 The relevant standards are:
- IFRS 9, Financial Instruments
 - IAS 32, Financial Instruments: Presentation
 - IFRS 7, Financial Instruments: Disclosures.
 - IAS 39, Financial Instruments: Recognition and Measurement (where not governed by the FReM interpretation of hedging arrangements as per paragraph 4.279)
- 4.496 The accounting for some financial instruments is already covered by specific IFRS Standards, and these therefore fall outside the scope of the above Standards (with certain exceptions). These include:

- those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10, Consolidated Financial Statements, IAS 27, Separate Financial Statements or IAS 28, Investments in Associates and Joint Ventures (except where those Standards require or permit an entity to follow IFRS 9)
 - rights and obligations under leases to which IAS 17, Leases applies (except for some derecognition and impairment requirements of IFRS 9, and derivatives embedded in a lease)
 - employers' rights and obligations under employee benefit plans, to which IAS 19, Employee Benefits applies
 - provisions recognised in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and rights to payments in reimbursement of expenditure to settle these
 - rights and obligations within the scope of IFRS 15, Revenue from Contracts with Customers that are financial instruments (except those for which IFRS 15 specifies that IFRS 9 applies).
- 4.497 Additionally, the FReM specifies the accounting for public sector entities granting service concession arrangements within the scope of IFRIC 12, Service Concession Arrangements, and these are therefore outside the scope of the financial instruments standards.
- 4.498 Please see chapter 2 of IFRS 9 for full details regarding the scope of the Standard.

HM Treasury interpretations and adaptations

- 4.499 HM Treasury has interpreted and adapted IFRS 9 and IAS 32 as set out in the FReM and adopted in this manual at paragraphs 4.277 and 4.279.

Definition of financial instruments

- 4.500 IAS 32 defines a financial instrument as “any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.”
- 4.501 The full definitions for financial assets and liabilities are set out in IAS 32 paragraph 11. For DHSC group bodies, financial assets will usually be:
- cash
 - an equity instrument (for instance, a shareholding) of another entity

- a contractual right to receive cash or another financial asset from another entity, or
- a contractual right to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity

and financial liabilities will usually be:

- a contractual obligation to deliver cash or another financial asset to another entity, or
- a contractual obligation to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

4.502 An equity instrument is “any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.”

4.503 Note the applicability of HM Treasury’s adaptation of IAS 32. This expands the definitions of contract and contractual within IAS 32 to include legislation and regulation which gives rise to arrangements that in all other respects would meet the definition of a financial instrument under IAS 32.11, but do not give rise to transactions classified as a tax.

4.504 The following items are viewed as outside the scope of IFRS 9 and the IFRS 15 contract adaptation:

- Public Dividend Capital
- European Union Emissions Trading Scheme allowances
- early retirement liabilities (with NHS Business Services Authority)
- injury benefit liabilities (with NHS Business Services Authority)
- HMRC payables and receivables (such as VAT).

4.505 Additionally, prepayments are not financial assets because they are contractual rights to receive goods or services, rather than to receive cash or another financial asset.

4.506 The following are, or could be, financial assets:

- cash at bank and in hand
- contract and other receivables
- loans receivable

- investments
- interests in subsidiaries, associates and joint ventures (in the limited situations in which it is per paragraph 2(a) of the Standard detailing the scope of IFRS 9 and in application of the FReM's adaptation of group accounting standards for certain ALBs per paragraph 4.329).

4.507 The following are, or could be, financial liabilities:

- other payables
- loans payable
- provisions (where these arise under contract)
- finance leases
- PFI and LIFT liabilities

Recognition and de-recognition

4.508 Financial assets and financial liabilities are recognised when the body becomes a party to the contractual provisions of the instrument, subject to IFRS 9 paragraphs B3.1.1 and B3.1.2.

4.509 In particular, entities do not generally recognise assets or liabilities in relation to a firm commitment to purchase or sell goods or services, until these have been shipped, delivered or rendered.

4.510 Detailed derecognition requirements for financial assets are set out in IFRS 9 section 3.2. In general, financial assets must be derecognised when:

- the contractual rights to the cash flows from the financial asset have expired, or
- the financial asset has been transferred (for example, sold) in accordance with IFRS 9 paragraphs 3.2.4 and 3.2.5, and substantially all the risks and rewards of ownership have transferred or control of the asset has otherwise been lost (see IFRS 9 paragraph 3.2.6).

4.511 Financial liabilities must be derecognised when the liability has been extinguished, that is when the obligation specified in the contract has been discharged or cancelled or has expired.

Classification and measurement

4.512 IFRS 9 requires entities to classify financial assets and financial liabilities in accordance with how they are subsequently measured.

Classification of financial assets

4.513 Financial assets must be classified as subsequently measured at:

- amortised cost
- fair value through other comprehensive income, or
- fair value through profit or loss.

4.514 To determine which category applies, entities must consider:

- the business model for managing the financial assets ('the business model test'), and
- the contractual cash flow characteristics of the financial asset ('the cash flow test').

4.515 The business model test requires an entity to consider whether a financial asset is held within:

4.516 a business model whose objective is to hold financial assets in order to collect contractual cash flows

- a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, or
- any other business model (including one whose objective is achieved primarily by selling financial assets).

4.517 The cash flow test requires an entity to consider whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4.518 The combination of these two tests determines the classification of financial instruments as set out in the following table:

Business model	Solely payments of principal and interest?	
	Yes	No
Collect contractual cash flows	Amortised cost	Fair value through profit or loss

Collect contractual cash flows and sell	Fair value through other comprehensive income	
Any other model	Fair value through profit or loss	

- 4.519 Additionally, for equity instruments that would otherwise be measured at fair value through profit or loss, and that are neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, an entity may make an irrevocable election at initial recognition to present subsequent changes in fair value in other comprehensive income.
- 4.520 An entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.
- 4.521 This may apply where a related financial asset and financial liability might otherwise be measured on different bases. See IFRS 9 paragraphs B4.1.29 to B4.1.32 for more information.
- 4.522 Under the above classification criteria, simple debt instruments such as trade receivables and loans, where these are held in order to collect the amount owing and any interest charge, will be classified as subsequently measured at amortised cost.
- 4.523 Complex instruments, such as derivatives, are likely to fail the cash flow test and be classified as subsequently measured at fair value through profit or loss.

Classification of financial liabilities

- 4.524 Financial liabilities must all be classified as subsequently measured at amortised cost, with the following exceptions (explained in more detail in IFRS 9 paragraph 4.2.1):
- financial liabilities at fair value through profit or loss
 - financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies
 - financial guarantee contracts
 - commitments to provide a loan at a below-market interest rate
 - contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

4.525 Additionally, an entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss where:

- the liability forms part of a hybrid contract containing one or more embedded derivatives (see paragraph 4.588) and the host is not an asset within the scope of IFRS 9, in which case the entire hybrid contract may be designated as at fair value through profit or loss (see IFRS 9 paragraph 4.3.5)
- doing so eliminates or significantly reduces a measurement or recognition inconsistency (see IFRS 9 paragraphs B4.1.29 to B4.1.32), or
- doing so provides more relevant information for a group of financial liabilities or financial assets and financial liabilities, which is managed and its performance evaluated on a fair value basis (see IFRS 9 paragraph 4.2.2(b)).

Initial measurement

4.526 Most financial assets and financial liabilities are measured on initial recognition at fair value, plus or minus directly attributable transaction costs for financial assets and financial liabilities not at fair value through profit or loss.

4.527 The fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). See IFRS 9 paragraph B5.1.2A where this is not the case.

4.528 Trade receivables must initially be measured at their transaction price, as defined in IFRS 15, unless they contain a significant financing component and the entity consequently adjusts the promised amount of consideration for the time value of money.

4.529 Where future cash flows are discounted to measure fair value, entities must use the higher of the rate intrinsic to the financial instrument and the real financial instrument discount rate set by HM Treasury (see [Chapter 4 Annex 7 - Treasury Discount Rates](#)) as applied to the flows expressed in current prices.

Subsequent measurement

4.530 The subsequent measurement of financial assets and financial liabilities is determined by their classification.

Amortised cost measurement

4.531 Amortised cost measurement applies to simple debt instruments held to collect contractual cash flows and to most financial liabilities.

- 4.532 The amortised cost of a financial asset or financial liability is the amount at which it is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.
- 4.533 For financial assets, this must be adjusted for any loss allowance.
- 4.534 The effective interest method is a method of allocating interest revenue or interest expense in profit or loss over the relevant period, using the effective interest rate.
- 4.535 The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. before adjusting for any loss allowance) or to the amortised cost of a financial liability.
- 4.536 The effect of this is to spread overall returns to calculate a uniform rate of return over the life of the instrument.
- 4.537 As an example, consider a loan receivable with a nominal value of £100, which an entity purchases for £90. Interest is paid to the entity at a rate of 5% over a five-year term, with the principal repayable at the end of this term. In simple cash terms, the value of the loan over time is as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5
Nominal loan value b/f	100	100	100	100	100
Interest @ 5%	5	5	5	5	5
Repayments received	(5)	(5)	(5)	(5)	(105)
Nominal loan value c/f	100	100	100	100	0

- 4.538 By a process of iteration, the effective interest rate that exactly discounts the above repayments to the purchase price of £90 can be calculated to be 7.47%.
- 4.539 The carrying amount of the loan at amortised cost is calculated as the initial carrying amount increased each year by the effective interest rate and reduced by each year's repayments.
- 4.540 This results in the following amounts recognised as financial assets and interest revenue:

	Year 1	Year 2	Year 3	Year 4	Year 5

Loan carrying value b/f	90.00	91.72	93.57	95.56	97.70
Interest @ 7.47%	6.72	6.85	6.99	7.14	7.30
Repayments received	(5.00)	(5.00)	(5.00)	(5.00)	(105.00)
Loan carrying value c/f	91.72	93.57	95.56	97.70	0.00

- 4.541 This calculation reflects the fact that 5% is not the true rate of interest from the entity's perspective, since it acquired the loan for less than its nominal value and gains an extra benefit when the full nominal value is repaid. This benefit is spread (i.e. amortised) over the term of the loan.
- 4.542 Where the only return on an instrument is the nominal interest, this will be the effective interest rate. If there is no interest or other returns, the effective interest rate will be nil.
- 4.543 Taking a simple instance in which a provider is repaying a loan to DHSC, the effective interest rate would be equal to the nominal rate. As such the loan carried forward amount would be the value brought forward, less payment of principal and interest in year.
- 4.544 IFRS 9 paragraphs B5.4.1 to B5.4.7 describe the effective interest rate further. See also paragraphs 5.4.1 and 5.4.2 for the application of the effective interest rate to financial assets that are credit-impaired on purchase or origination, or that become credit-impaired.

Fair value through other comprehensive income

- 4.545 Financial assets are measured at fair value through other comprehensive income if they are simple debt instruments held both to collect contractual cash flows and to be sold, or if they are equity instruments designated at fair value through other comprehensive income on initial recognition.
- 4.546 Gains and losses arising from changes in fair value of financial assets ordinarily measured at fair value through other comprehensive income are taken to reserves and reported in the Statement of Comprehensive Income / Statement of Comprehensive Net Expenditure as part of Other Comprehensive Income / Other Comprehensive Net Expenditure.
- 4.547 Exceptions to this are impairment gains or losses and foreign exchange gains or losses, which are recognised in profit or loss. Amounts taken to reserves in respect of these assets are reclassified to profit or loss on derecognition of the financial asset, in accordance with IAS 1.

Irrevocable Election of Equity Instruments

- 4.548 The Standard enables an irrevocable election to be made at initial recognition, to measure equity instruments not held for investment nor contingent on considerations recognised by an acquirer in a business combination under IFRS 3, at fair value through other comprehensive income.
- 4.549 The election should be considered on an instrument by instrument basis, as per paragraph B5.7.1 of the Standard.
- 4.550 Through using the business model and cashflow tests described in 4.514, the default approach for equity instruments would be measurement at fair value through profit or loss.
- 4.551 An entity may consider there to be a number of advantages in making the irrevocable election and moving away from the IFRS 9 'default approach' for equity instruments.
- 4.552 The election will enable a similar 'other comprehensive income approach' for equity instruments to persist as under IAS 39, such instruments would be held in the residual 'available for sale' category.
- 4.553 In making the election it should be noted however that a more constrained set of realised gains or losses will impact on profit or loss, than those described in 4.546.
- 4.554 Unlike financial assets ordinarily measured as fair value through other comprehensive income, it is only dividends not representing recovery of part or all of the cost of the investment, that will be realised in profit or loss in making this election.
- 4.555 Gains and losses from changes in the fair value of equity instruments designated at fair value through other comprehensive income are taken to reserves, but are not subsequently reclassified to profit or loss also.
- 4.556 The Standard only allows for the cumulative gain or loss to be transferred within equity when the election is made.
- 4.557 As such making the election could reduce the extent to which there is a significant change in approach on adoption of IFRS 9, whilst also constraining the instances in which realised gains or losses will impact profit or loss.
- 4.558 As the election is irrevocable entities should carefully consider the merits of making the election and bear in mind that an instrument by instrument approach to the election is permissible under the Standard.

Fair value through profit or loss

- 4.559 Any financial instruments that are not measured at amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.
- 4.560 This includes financial assets and financial liabilities designated at fair value through profit or loss on initial recognition.
- 4.561 Gains and losses arising from changes in fair value of such financial instruments are recognised in profit or loss.

Impairment

- 4.562 IFRS 9 requires the recognition of impairments on an expected losses basis for financial assets that are debt instruments measured at amortised cost or at fair value through other comprehensive income.
- 4.563 The impairment requirements of IFRS 9 additionally apply to lease receivables, contract assets (as defined in IFRS 15), and certain loan commitments and financial guarantee contracts (see IFRS 9 paragraph 5.5.1).
- 4.564 IFRS 9 sets out a three-stage model for impairment, known as the 'general approach'.
- 4.565 An alternative 'simplified approach' for trade receivables, contract assets and lease receivables is also described, and HM Treasury has interpreted IFRS 9 to mandate the use of the simplified approach, further detail behind which is given from paragraph 4.576.

General Approach

- 4.566 Under the general approach, entities must at each stage of the model recognise a loss allowance for expected credit losses against any of the financial instruments described in paragraph 4.562.
- 4.567 Expected credit losses are defined as the weighted average of credit losses, with the respective risks of a default occurring as the weights. The method of calculating losses is detailed below from paragraph 4.583.
- 4.568 At each reporting date, entities must consider whether the credit risk on a financial instrument has increased significantly since initial recognition (see IFRS 9 paragraphs 5.5.9 to 5.5.11). If it has not, then a loss allowance equal to 12-month expected credit losses is recognised. This is known as a 'stage 1' impairment.

- 4.569 It is important to note that such a loss allowance is based on an estimate of future losses and is applicable regardless of whether there is objective evidence of an actual impairment event.
- 4.570 If the credit risk has increased significantly since initial recognition, then a loss allowance equal to lifetime expected credit losses is recognised. This is known as a 'stage 2' impairment.
- 4.571 If the credit risk subsequently improves, then it is possible for a financial instrument to revert to 'stage 1' with a consequent reduction in the loss allowance.
- 4.572 A 'stage 3' impairment occurs when there is evidence that an impairment event has occurred, and a loss allowance equal to lifetime expected credit losses is recognised. A financial asset, or part of a financial asset, is written off and derecognised when the entity has no reasonable expectation of recovering it.
- 4.573 Note that in relation to interest bearing assets, interest income must be recognised on the net carrying amount (including any impairment) for an asset undergoing a 'stage 3' impairment.
- 4.574 This differs to interest bearing assets undergoing a 'stage 2' impairment, for which interest income should be recognised on the gross carrying amount, thus excluding any impairment.
- 4.575 The difference in treatment reflects the difference as to the permanence of the loss being incurred.

Simplified Approach

- 4.576 Under the simplified approach entities may separately opt in some instances and are mandated in others, to measure the loss allowance at lifetime expected credit losses at initial recognition.
- 4.577 This approach therefore removes the need to consider stage 1 impairments.
- 4.578 Under IFRS 9 entities may opt to employ the simplified approach for;
- all trade receivables that contain a significant financing component in accordance with IFRS 15
 - all contract assets that contain a significant financing component in accordance with IFRS 15
 - all lease receivables in the scope of IAS 17, but this may be applied separately between finance and operating leases

- 4.579 The approach is mandated under IFRS 9 for contract assets and receivables that do not contain a significant financing component in accordance with IFRS 15.
- 4.580 The accounting policy choice regarding application of the simplified approach described in 4.576, has been withdrawn for long term trade receivables, lease receivables within scope of IAS 17 and contract assets that do contain a significant financing component (in accordance with IFRS 15) as part of the HM Treasury interpretation of IFRS 9.
- 4.581 As such DHSC group bodies must apply the simplified approach to all relevant financial assets.
- 4.582 It should be noted that whilst the simplified approach removes the need to consider whether the credit quality of relevant financial assets has deteriorated significantly since initial recognition, it may result in a more sizeable loss allowance being recognisable on initial recognition of the asset than under the general approach.

Calculation of expected credit losses

- 4.583 Expected credit losses are the probability weighted losses expected from credit loss events occurring within a defined period.
- 4.584 For instance, 12-month expected credit losses are the total losses expected from any event occurring in the next twelve months, whilst lifetime expected credit losses are the total losses expected from any event occurring within the lifetime of the financial asset.
- 4.585 For financial assets with a term of less than twelve months, these are clearly the same thing.
- 4.586 As an example, consider a financial asset valued at £100 that, within the next twelve months, has a 10% probability of the whole amount becoming irrecoverable, a 20% probability of half of this amount becoming irrecoverable, and a 70% probability of full recovery. The 12-month expected credit losses (ECL) are calculated as:

Calculation of Expected Credit Losses	Value
10% x £100	£10
20% x £50	£10
70% x £0	£0
Total Expected Credit Losses	£20

4.587 The calculation of lifetime expected credit losses follows the same approach, but using probabilities of default applicable to the whole term of the financial asset.

Embedded derivatives

4.588 A derivative is a financial instrument, or other contract within the scope of IFRS 9, that has all three of the following characteristics:

- its value changes in response to a change in a specified variable (for example, interest rate, financial instrument price, commodity price foreign exchange rate, index of prices or rates, credit rating or credit index)
- it requires no initial investment or a smaller initial investment than for other types of contracts that would be expected to respond similarly to changes in market factors, and
- it is settled at a future date.

4.589 An embedded derivative is a component of a hybrid contract with a non-derivative host that causes some of the cash flows of the combined instrument to vary in a way similar to a standalone derivative.

4.590 Such a component is only an embedded derivative if it is not contractually transferable independently of the host. A derivative that does not meet this requirement is a separate financial instrument.

4.591 Embedded derivatives can arise inadvertently through market practices or through common contracting arrangements. Examples of host contracts that could have embedded derivatives include:

- purchase and sale agreements
- debt instruments
- leases
- PFI contracts.

4.592 Contracts rarely make explicit reference to a derivative. Instead they may refer, for example, to:

- pricing based on a formula

- right to purchase/sell additional units
- indexed to/adjusted by
- limits
- rights to cancel/extend/repurchase.

Separation of embedded derivatives

4.593 In some circumstances, IFRS 9 requires embedded derivatives to be accounted for separately from the host contract. In other circumstances, the entire hybrid contract is accounted for as a single financial instrument.

4.594 An embedded derivative is not separated from the host if:

- the host is an asset within the scope of IFRS 9, or
- the hybrid contract is a financial liability measured at fair value through profit or loss.

4.595 In these circumstances, IFRS 9 is applied to the entire hybrid contract.

4.596 If neither of the above requirements are met, then the embedded derivative is separated from the host if:

- the economic characteristics and risks of the embedded derivative and of the host are not closely related, and
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

4.597 In these circumstances, IFRS 9 is applied separately to the embedded derivative, which is measured at fair value through profit or loss, whilst the host is accounted for in accordance with whichever IFRS Standards are relevant.

4.598 If the embedded derivative cannot be measured separately, then the entire hybrid contract is measured at fair value through profit or loss.

4.599 If an embedded derivative is not separated because the conditions in paragraph 4.596 are not met, then the entire hybrid contract is accounted for in accordance with whichever IFRS Standards are relevant.

4.600 An example of an embedded derivative with characteristics closely related to those of the host is a lease contract containing an RPI-linked component, where the

lease is not leveraged and the index relates to inflation in the entity's own economic environment. Variations in the index reflect variations in the costs associated with providing the leased asset and can be considered to be related.

4.601 However, a lease for a photocopier, where part of the price of the contract varies with the price of paper, is an example of an embedded derivative that is not closely related. The cost of paper does not have the same economic characteristics or risks as the lease of the machine. In this case, the embedded derivative would be accounted for separately from the lease.

Hedge accounting

4.602 Hedging is the use of financial instruments to manage exposure to risk by offsetting changes in fair values or cash flows of another transaction. Hedge accounting refers to the representation of this risk management in the financial statements.

4.603 Typically, a relationship is designated between the hedged item, which is exposed to the specified risk, and a hedging instrument, which varies so as to offset changes in the hedged item.

4.604 Depending on the nature of the hedge, gains and losses arising from this relationship are taken either to profit or loss or to a hedging reserve.

4.605 Only qualifying instruments may be designated as a hedging instrument.

4.606 The requirements for this under IFRS 9 are less restrictive than previously existed under IAS 39, and hedge accounting may therefore be applied in a wider range of circumstances.

4.607 Nevertheless, it is unlikely that DHSC group bodies will make use of hedge instruments, and hedging is not described in detail in this annex.

4.608 Where they do enter into hedging arrangements, DHSC group bodies must follow the guidance in IFRS 9 chapter 6.

Disclosures

4.609 Disclosure requirements for financial instruments are set out in IFRS 7.

4.610 This Standard applies in full, but DHSC group bodies must consider the extent to which they are exposed to material financial instrument risk and make relevant

disclosures accordingly, with particular emphasis on significant credit risk from receivables.

4.611 The following paragraphs outline the main disclosures required by IFRS 7.

Statement of Financial Position

4.612 DHSC group bodies must disclose, either in the Statement of Financial Position or in the notes, the carrying amounts of financial assets and financial liabilities in each of the following categories (where relevant):

- Financial assets at amortised cost
- Financial assets at fair value through profit or loss (distinguishing between those mandatorily measured as such and those designated as such on initial recognition)
- Financial assets at fair value through other comprehensive income (distinguishing between those mandatorily measured as such and equity instruments designated as such on initial recognition)
- Financial liabilities at amortised cost
- Financial liabilities at fair value through profit or loss (showing separately any designated as such and any that meet the definition of held for trading)

4.613 IFRS 7 paragraphs 9 to 11B set out additional disclosures for financial assets and financial liabilities designated at fair value through profit or loss and equity instruments designated at fair value through other comprehensive income.

4.614 IFRS 7 paragraphs 12B to 12D set out additional disclosures relevant to reclassification of financial assets.

Statement of Comprehensive Income (SoCI) / Statement of Comprehensive Net Expenditure (SoCNE)

4.615 DHSC group bodies must disclose the following, either in the Statement of Comprehensive Income / Statement of Comprehensive Net Expenditure or in the notes (where relevant):

- Net gains or losses on each of the categories of financial assets and financial liabilities set out in paragraph 4.612, including those based on designation. See paragraph 5.43 for further information on the presentation of items in other comprehensive income.

- Total interest revenue and total interest expense for financial assets at amortised cost, financial assets mandatorily measured at fair value through other comprehensive income, and financial liabilities not measured at fair value through profit or loss.
 - Fee income and expense arising from financial assets and financial liabilities not measured at fair value through profit or loss.
- 4.616 Additionally, IFRS 7 paragraph 20A requires an analysis of gains and losses arising from the derecognition of financial assets at amortised cost, including reasons for derecognition (such as sale or write off).

Nature and extent of risks arising from financial instruments

4.617 IFRS 7 paragraphs 31 to 42 set out disclosures required to enable users of the financial statements to evaluate the nature and extent of risks arising from financial instruments to which an entity is exposed. DHSC group bodies should consider the extent to which these are relevant and provide useful information.

4.618 The disclosures address three main areas of risk:

- Credit risk – the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation
- Liquidity risk – the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset
- Market risk – the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market price (comprising currency risk, interest rate risk and other price risk)

4.619 Entities must provide various qualitative and quantitative disclosures where these risks are significant.

4.620 Credit risk is likely to be of greatest significance for DHSC group bodies, particularly where they hold high values of receivables.

4.621 Disclosures to consider include details of the entity's exposure to credit risk, its credit risk management practices, how it determines expected loss allowances, and reconciliations of movements in loss allowances.

Other disclosures

- 4.622 IFRS 7 paragraphs 25 to 30 set out additional disclosures required where carrying amounts may differ from fair value.
- 4.623 IFRS 7 paragraphs 42A to 42h set out additional disclosures required where financial assets have been transferred.

Other guidance

- 4.624 HM Treasury has provided [application guidance for IFRS 9](#).

Chapter 4 Annex 7 - Treasury Discount Rates

- 4.625 HM Treasury's FReM describes the use of discount rates to value general provisions, leases, post-employment benefit provisions and financial instruments. HM Treasury sets the standard discount rates each year by means of a Public Expenditure System (PES) paper.
- 4.626 For the reporting period ending 31 March 2024, the PES paper is expected to be released in December 2023. The various rates promulgated via the PES will be reflected in this annex of the GAM via a Q3 FAQ.
- 4.627 Cumulative combined inflation and discount rates for up to 50 years are provided in paragraph 4.642. This table will also be updated on receipt of the revised discount rates in December 2023.

Summary of discount rates to be applied as at 31 March 2024

- 4.628 The discount rates to be applied as at 31 March 2024 for general provisions, post-employment benefits and financial instruments are summarised below.

Rate type	Current year rate	Prior year rate
Nominal general provision discount rates		
Short-term		3.27%
Medium-term		3.20%
Long-term		3.51%
Very long-term		3.00%
General provisions inflation rates		
Year 1		7.4%
Year 2		0.6%
Into perpetuity		2.0%
Post-employment benefits discount rate		

Rate type	Current year rate	Prior year rate
Real rate		1.70%
Nominal rate		4.15%
CPI Inflation		2.40%
Financial instrument discount rate		
Nominal rate		1.9%
Real rate with reference to RPI until February 2030		Minus 1.3%
Real rate with reference to RPI from February 2030		Minus 0.2%
Leases discount rate		
Nominal Rate		3.51%

4.629 The following detail is provided to assist preparers in utilising the various discount rates.

General provisions

4.630 General provisions discount rates are used to discount future cash flows related to provisions recognised in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets.

4.631 Treasury gives rates for short, medium, long-term and very long-term general provisions. These are defined as follows:

- Short-term rate: A nominal discount rate to be applied to the cash flows of general provisions in a time boundary between 0 and up to and including 5 years from the Statement of Financial Position date.
- Medium-term rate: A nominal discount rate to be applied to the cash flows of general provisions in a time boundary of after 5 and up to and including 10 years from the Statement of Financial Position date.

- Long-term rate: A nominal discount rate to be applied to the cash flows of general provisions in a time boundary of after 10 years and up to and including 40 years from the Statement of Financial Position date.
 - Very long-term rate: A nominal discount rate to be applied to the cash flows of general provisions in a time boundary exceeding 40 years from the Statement of Financial Position date.
- 4.632 Note – it is the timing of the expected cash flow that governs the discount rate used – the PES papers make no reference to setting discount rates according to the overall term of the arrangement.
- 4.633 To arrive at the SoFP balance for a provision with expected cash flows occurring in each year for 60 years, cash flow should first be inflated, then each of the four discount rates will need to be applied.
- 4.634 It would not be appropriate to discount cash flows at the very long-term rate in the first 40 years simply because the liability is not expected to be wholly discharged until year 60

Inflation assumptions

- 4.635 The central inflation assumptions offered below paragraph 4.628 have been provided by HM Treasury.
- 4.636 They are based on what is judged to be the most statistically reliable measure of inflation (the Office of Budget Responsibility Consumer Price Index (OBR CPI) forecasts).
- 4.637 The OBR CPI inflation rates should be applied across the following time frames:
- Year 1: applied on cash flows up to and including 1 year from the date of the Statement of Financial Position.
 - Year 2: applied on cash flows from after 1 and up to and including 2 years from the date of the Statement of Financial Position.
 - Into perpetuity: applied on cash flows from after 2 years from the date of the Statement of Financial Position.
- 4.638 HM Treasury consider the presumption to use OBR CPI inflation rebuttable only in certain instances.

- 4.639 It is for each entity to assure itself over the reasonableness of the judgements made against the following criteria provided by HM Treasury as to when it is considered acceptable to rebut the presumption of inflating cashflows using OBR CPI.
- 4.640 Where no legal or other requirement prohibits the application of OBR CPI inflation, entities must satisfy themselves that;
- There is a logical basis for not applying OBR CPI inflation rates, in that the proposed alternative inflation rates would be clearly more applicable to the underlying nature of the cash flows;
 - The proposed alternative inflation rates must be free from management bias. An indication of this may be an independent or professional assessment of the proposed alternative inflation rates, such as by a committee, third party or other experts; and,
 - The inflation rates instead applied should be based on logical and relevant calculations and reasonable underlying assumptions. For example, they may be comparable to existing financial indices or based on historical trends.
- 4.641 Where a legal requirement exists prohibiting the application of the OBR CPI rates or requires an adjustment to the rate applied;
- An inflation rate specified by statute or by the courts can be applied instead of OBR CPI inflation;
 - OBR CPI can be adjusted where this is required by statute or by the courts; for example, in the case of legally enforceable public pension caps; and,
 - Where OBR CPI cannot be applied by statute or by the courts, but an alternative rate or adjustment is not prescribed, a comparative inflation rate must instead be applied and must fulfil conditions as set out above
- 4.642 The below table is an excerpt from Annex C of PES (2022) 08 which provides combined OBR CPI inflation and discount rates for up to 50 years after the Statement of Financial Position date as at 31 March 2023. This will be updated in December 2023 with the appropriate rates as at 31 March 2024.
- 4.643 Annex C offers combined rates for up to and including 200 years. The rates will be updated in line with the PES published by HM Treasury. This annex is available on request from the [GAM inbox](#).

Year	Inflation rate	Inflation cumulative	Discount rate	Cumulative Combined rate
(a)		(b)	(c)	(d) $d=b*c^a$
1	7.4%	107.4%	3.27%	104.00%
2	0.6%	108.0%	3.27%	101.32%
3	2.0%	110.2%	3.27%	100.08%
4	2.0%	112.4%	3.27%	98.85%
5	2.0%	114.7%	3.27%	97.64%
6	2.0%	117.0%	3.20%	96.80%
7	2.0%	119.3%	3.20%	95.67%
8	2.0%	121.7%	3.20%	94.56%
9	2.0%	124.1%	3.20%	93.45%
10	2.0%	126.6%	3.20%	92.37%
11	2.0%	129.1%	3.51%	88.35%
12	2.0%	131.7%	3.51%	87.06%
13	2.0%	134.3%	3.51%	85.79%
14	2.0%	137.0%	3.51%	84.54%
15	2.0%	139.8%	3.51%	83.30%
16	2.0%	142.6%	3.51%	82.09%
17	2.0%	145.4%	3.51%	80.89%
18	2.0%	148.3%	3.51%	79.71%
19	2.0%	151.3%	3.51%	78.55%
20	2.0%	154.3%	3.51%	77.40%
21	2.0%	157.4%	3.51%	76.27%

22	2.0%	160.5%	3.51%	75.16%
23	2.0%	163.8%	3.51%	74.06%
24	2.0%	167.0%	3.51%	72.98%
25	2.0%	170.4%	3.51%	71.92%
26	2.0%	173.8%	3.51%	70.87%
27	2.0%	177.3%	3.51%	69.84%
28	2.0%	180.8%	3.51%	68.82%
29	2.0%	184.4%	3.51%	67.81%
30	2.0%	188.1%	3.51%	66.82%
31	2.0%	191.9%	3.51%	65.85%
32	2.0%	195.7%	3.51%	64.89%
33	2.0%	199.6%	3.51%	63.94%
34	2.0%	203.6%	3.51%	63.01%
35	2.0%	207.7%	3.51%	62.09%
36	2.0%	211.8%	3.51%	61.18%
37	2.0%	216.1%	3.51%	60.29%
38	2.0%	220.4%	3.51%	59.41%
39	2.0%	224.8%	3.51%	58.54%
40	2.0%	229.3%	3.51%	57.69%
41	2.0%	233.9%	3.00%	69.58%
42	2.0%	238.6%	3.00%	68.90%
43	2.0%	243.3%	3.00%	68.23%
44	2.0%	248.2%	3.00%	67.57%

45	2.0%	253.2%	3.00%	66.91%
46	2.0%	258.2%	3.00%	66.26%
47	2.0%	263.4%	3.00%	65.62%
48	2.0%	268.7%	3.00%	64.98%
49	2.0%	274.0%	3.00%	64.35%
50	2.0%	279.5%	3.00%	63.72%

Post-Employment Benefits Provisions

- 4.644 The real discount rate applicable on 31 March 2024 is x.xx% (the previous year's rate was 1.70%).
- 4.645 The rate is applicable for all provisions for continuing obligations arising from previous employment service.
- 4.646 HM Treasury consider that schemes for which RPI is a material assumption are limited and consequently no longer provide rates that take account of RPI inflation.
- 4.647 A nominal rate to be used for assessing interest costs of scheme liabilities is set at x.xx% (the previous year's rate was 4.15%).

Financial instruments

- 4.648 The financial instrument discount rate is used for some financial instruments in accordance with the requirements of the FReM.
- 4.649 The FReM states (Table 8.2):
- "Where future cash flows are discounted to measure fair value, entities must use the higher of the rate intrinsic to the financial instrument and the real financial instrument discount rate set by HM Treasury (promulgated in PES papers) as applied to the flows expressed in current prices."
- 4.650 To reflect the upcoming changes to RPI in 2030 HM Treasury have provided real rates for before and after February 2030. Accordingly, the real financial instrument discount rate to be applied at 31 March 2024 is x.x% (prior year rate minus 1.3%) until February 2030 and x.x% (prior year rate minus 0.2%) after February 2030. These rates can be applied where the instrument is index linked to RPI.

4.651 While entities should employ their own RPI modelling HM Treasury have provided indicative RPI rates of x.x% until February 2030 and x.x% from February 2030.

4.652 Where the financial instrument is not linked to an inflationary index, and a nominal rate is required, x.x% (previously 1.9%) may be used

Leases

4.653 Per the HM Treasury interpretation in paragraph 4.242 where entities cannot readily determine the interest rate implicit in the lease, they are required to use a HM Treasury discount rate promulgated in a PES update as their incremental borrowing rate, unless an entity can demonstrate another discount rate would more accurately represent their borrowing rate (such as instances in which external borrowing is undertaken).

4.654 For newly commenced leases, relevant lease modifications (paragraph 45 of IFRS 16) and relevant lease remeasurement scenarios (paragraph 40 of IFRS 16), the latest HM Treasury incremental borrowing rate will be relevant.

4.655 HM Treasury will issue a nominal discount rate for the 2024 calendar year in December 2023 as part of its annual release of discount rates.

4.656 The discount rate for the 2024 calendar year is x.xx%. The discount rate for the 2023 calendar year is 3.51%.

Chapter 4 Annex 8 – Accounting for Pooled Budgets and Joint Arrangements

Introduction

- 4.657 ICBs and NHS providers are increasingly experiencing a wide variety of healthcare commissioning arrangements.
- 4.658 To date, such arrangements typically involve combinations of ICBs and local authorities in co-commissioning arrangements, lead commissioning and pooled budgets.
- 4.659 Since 2015, many of these arrangements have been established as part of the Better Care Fund initiative.
- 4.660 In accounting for such arrangements, entities must follow the relevant accounting standards, subject to any adaptations and interpretations set out in this manual.
- 4.661 This annex provides supplementary guidance, outlining typical arrangements that exist in the NHS and illustrating how the relevant accounting principles apply.
- 4.662 This guidance is needed to ensure that all parties to these arrangements have a clear understanding of their own and their counterparties' accounting and reporting requirements and are implementing these consistently.
- 4.663 This will aid in agreement of balances exercises and successful elimination of intra-group transactions and balances.

The Better Care Fund (BCF)

- 4.664 The Better Care Fund initiative was announced in the 2013 Spending Review, and required ICBs and local authorities to pool funding for the delivery of integrated health and social care.
- 4.665 As a result, partnerships of ICBs and local authorities entered into agreements under section 75 of the NHS Act 2006, overseen by local Health and Wellbeing Boards.
- 4.666 These agreements established pooled budgets to enable integrated commissioning of care from NHS providers. These budgets have been in place since 2015-16.

- 4.667 Where ICBs receive ring-fenced BCF allocations, it is a requirement that they enter into pooled budgets with local authorities, set up under section 75 arrangements.
- 4.668 NHSE has statutory powers to retain or recover funds that are not applied in accordance with approved plans and through a section 75 pooled budget agreement.
- 4.669 [Additional information and operating guidance on BCF](#) is available on the NHSE website. This includes a [template section 75 agreement and advice](#) on the drafting of such agreements.
- 4.670 Whilst BCF is arguably the highest profile example of joint commissioning of healthcare, it is not unique and its accounting treatment and disclosures do not differ in principle from other pooled budgets and similar arrangements.

Relevant accounting standards and guidance

- 4.671 A joint commissioning arrangement or pooled budget may constitute a joint arrangement, as defined in IFRS 11 Joint Arrangements.
- 4.672 A joint arrangement exists where two or more parties have joint control of the arrangement. The concept of control is defined in IFRS 10 Consolidated Financial Statements.
- 4.673 Where IFRS 11 indicates that a joint arrangement is a joint venture, the accounting treatment is set out in IAS 28 Investments in Associates and Joint Ventures.
- 4.674 The disclosure requirements for parties with joint control of a joint arrangement are set out in IFRS 12 Disclosure of Interests in Other Entities.
- 4.675 Where an entity acquires an interest in a joint operation in which the activity constitutes a business, IFRS 3 Business Combinations is relevant.
- 4.676 Where a joint arrangement does not exist, a host to a pooled budget may need to consider whether it is acting as an agent or principal when it receives funds from other parties to the pool.
- 4.677 This is addressed in IFRS 15 Revenue from Contracts with Customers paragraphs B34 to B38.
- 4.678 Regulations for arrangements between NHS bodies and local authorities are set out in the NHS Act 2006 section 75 and SI 2000 No. 617, NHS Bodies and Local Authorities Partnership Arrangements Regulations 2000.

Detailed guidance

Overview of pooled budgets

- 4.679 A pooled budget occurs where a number of partners agree to set aside funds for a specific purpose that they will pursue jointly, usually because it addresses common objectives or results in benefits from working together. This implies an element of joint decision making over how the funds are used.
- 4.680 In such a pooled budget arrangement, one of the members typically acts as 'host'. This usually involves the other members making cash contributions into the pooled budget, which the host then uses to commission services on behalf of the contributors.
- 4.681 All parties to the arrangement will account for a share of the commissioning costs. The precise accounting will be determined by the terms of the agreement between these parties.
- 4.682 However, there is no requirement to physically transfer cash in order to have a pooled budget arrangement. The statute requires that a memorandum pooled budget account is maintained by the host but makes no mention of cash transfers.
- 4.683 The memorandum accounts can be funded by cash that remains with each of the members, as long as there is a clear understanding set out in the section 75 agreement that members have committed that amount of cash for the purposes of the pooled budget.
- 4.684 It is important to remember that a pooled budget is simply an aggregation of balances that belong to the pooled budget members, rather than an entity in its own right.
- 4.685 In considering how to account for pooled budget transactions, members will need to consider the nature of their relationship with other members of the pool and with providers of services to the pool. This is discussed in greater detail below.
- 4.686 Members must not record transactions with the pool as though it were a separate entity.
- 4.687 Pooled budget agreements must therefore provide that the hosting body will supply members and providers on a timely basis with all the financial data needed to allow them to analyse and report their transactions.

- 4.688 In particular, pool members and providers must be given on at least a quarterly basis, and soon enough to be useful, statements that detail their underlying transactions with the appropriate pool member counterparty.
- 4.689 Cash contributions to the pooled budget do not constitute expenditure. Members must apply the usual accruals concept to the recognition of expenditure for services delivered, and should not confuse this with the movement of cash.

Identifying joint arrangements and agency relationships

- 4.690 Members will need to consider the precise nature of the contractual terms contained in section 75 and other agreements to determine the appropriate accounting treatment for a pooled budget or collaborative working arrangement.
- 4.691 While the joint nature of such agreements may suggest a joint arrangement, as defined in IFRS 11, the detail of each agreement might point to a different approach.
- 4.692 Given that a pooled budget might contain distinct funding streams for a variety of commissioning arrangements, it is possible that different accounting treatments will apply to different elements. Each must therefore be considered separately.
- 4.693 As a first stage, members will need to understand what rights, obligations and powers are conferred on members through the contractual arrangements. Crucially, it is necessary to determine where control of the operation lies.

Control

- 4.694 IFRS 11 defines a joint arrangement as ‘an arrangement of which two or more parties have joint control’. To establish whether joint control exists, it is first necessary to determine whether all of the parties, or a group of them, collectively control the arrangement.
- 4.695 IFRS 10 states that an investor controls an investee if and only if it has all the following:
- power over the investee
 - exposure, or rights, to variable returns from its involvement with the investee, and
 - the ability to use its power over the investee to affect the amount of the investor’s returns.

- 4.696 Power arises from the rights of the investor, and exists where the investor has existing rights that give it the current ability to direct the relevant activities, that is the activities that significantly affect the investee's returns.
- 4.697 If a single entity controls the arrangement under these criteria, then that entity would consolidate the arrangement. This is unlikely to be the case in a genuine instance of collaborative working.
- 4.698 If two or more entities control the arrangement collectively, then a joint arrangement may exist. For this to be the case, the entities must exercise joint control.
- 4.699 Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement.
- 4.700 The accounting does not automatically follow the legal provisions contained in the pooled budget agreement. Members must consider the underlying substance of the arrangement and agree whether joint control exists.
- 4.701 If joint control does not exist, because unanimous consent is not required, then a joint arrangement does not exist. In this case, it is necessary to refer to IFRS 15 to consider whether the parties are in an agency relationship.
- 4.702 This approach to categorising collaborative working arrangements is summarised in figure 1 below.

Joint arrangements

- 4.703 There are two types of joint arrangements: 'joint operations' and 'joint ventures'.
- 4.704 A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets, and obligations for the liabilities, relating to the arrangement.
- 4.705 This applies to all joint arrangements not structured through a separate vehicle, which is likely to be the case for a pooled budget. Even where a separate vehicle is involved, the arrangement may still be a joint operation.
- 4.706 Joint operators will need to account for the assets, liabilities, revenues and expenses relating to their interest in the joint operation in accordance with the applicable accounting standards.

- 4.707 A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets of the arrangement. This must involve a separate vehicle, but this alone does not ensure the arrangement is a joint venture.
- 4.708 Joint venturers will need to account for their interest in a joint venture as an investment, in accordance with IAS 28 Investments in Associates and Joint Ventures.

Agency relationships

- 4.709 Where a collaborative working arrangement does not constitute a joint arrangement, the participants will need to consider whether they are in an agency relationship.
- 4.710 The host of a cash pool will be in receipt of contributions from other members of the pool. The host must therefore consider whether these receipts constitute revenue. This is addressed in IFRS 15, which defines the roles of principal and agent.
- 4.711 An entity is acting as a principal when it makes a performance obligation to provide specified goods or services to a customer, for which it must control the specified good or service before it is transferred to the customer.
- 4.712 Where the nature of the performance obligation is to arrange for goods or services to be provided by another party, the entity is acting as an agent on behalf of the principal.
- 4.713 Participants of a pooled budget must therefore agree whether the host is acting as an agent or principal.
- 4.714 This is particularly important for the purposes of agreement of balances and elimination of intra-group transactions.
- 4.715 The ultimate provider of services must also understand this relationship, as it will determine whom they consider to be their customer.
- 4.716 Indicators that the host is acting as an agent include:
- the members having agreed that each has the power to veto the engagement with any given provider
 - the members jointly having the power to hold end-providers to account for delivery, cost, timeliness and quality, or

- all the risks associated with any given contract being borne equally by the members, for instance increases in the charges payable for services delivered by the provider.

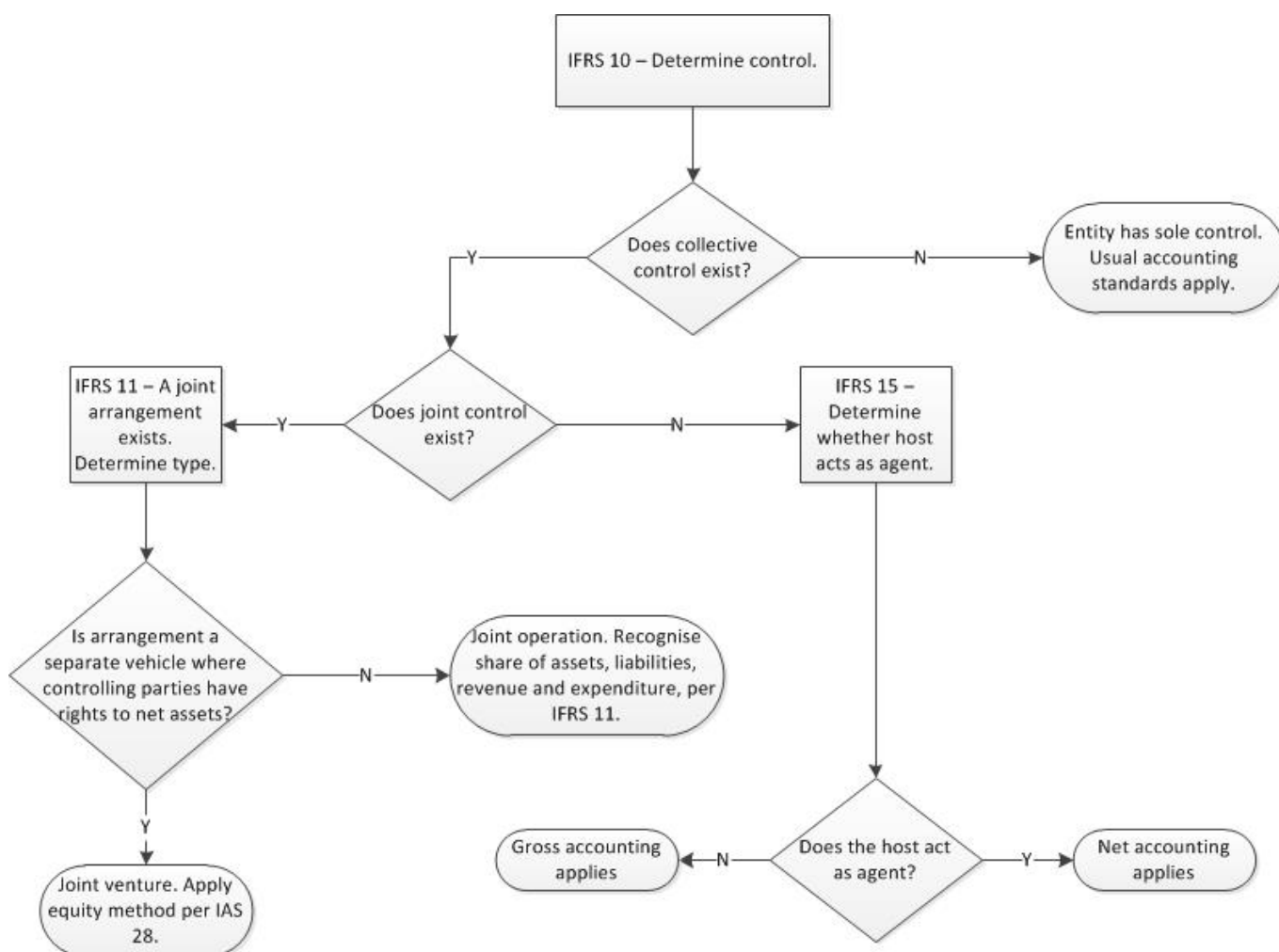
4.717 In an agency relationship, the host does not treat amounts collected on behalf of the principal as revenue. These amounts simply pass through the agent, and are accounted for on a net basis.

4.718 Indicators that the host is acting as a principal include:

- the members having contracted with the host in terms that make the host solely responsible for the delivery of services
- the members having agreed to delegate authority to the host to select end-providers and to manage the contract delivery with minimal or no reference to other members, or
- the host being subject to a greater degree of risk in respect of the contract performance than the other members, for instance having to absorb increases in the charges payable to end-providers.

4.719 Where the host acts as principal, it treats amounts collected from other parties to the pool as revenue. It accounts for these amounts, and payments to the ultimate provider, on a gross basis.

Figure 1 – Categorisation of collaborative working relationships



Accounting for joint arrangements and pooled budgets

4.720 Once the nature of an entity’s interest in a collaborative working arrangement has been established, following the approach set out above, the relevant accounting guidance below must be applied.

Joint ventures

4.721 A joint venture must involve a separate vehicle. As pooled budgets and co-commissioning are unlikely to operate on this basis, this guidance does not address joint ventures in detail.

4.722 Where a joint venture exists, NHS bodies and DHSC ALBs (other than DHSC agencies) must account for their interest as an investment using the equity method, as set out in IAS 28.

4.723 Core DHSC and DHSC agencies must apply IAS 28 in accordance with the adaptation set out in [Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group](#).

Joint operations

4.724 The accounting treatment for an interest in a joint operation is set out in IFRS 11 paragraphs 20-23. Specifically, a joint operator must recognise:

- (a) its assets, including its share of any assets held jointly
- (b) its liabilities, including its share of any liabilities incurred jointly
- (c) its revenue from the sale of its share of the output arising from the joint operation
- (d) its share of the revenue from the sale of the output by the joint operation, and
- (e) its expenses, including its share of any expenses incurred jointly.

4.725 An entity's share of the assets, liabilities, revenue and expenditure of the joint operation will be determined by the agreement establishing the arrangement.

4.726 Where the joint operation does not involve a separate vehicle, parties to the joint operation will not transact with it as an entity in its own right. Transactions are therefore with the entities that interact with the joint operation.

4.727 The effect of this is essentially the same as for net accounting arrangements, as described below.

4.728 Each joint operator will recognise its share of any expenditure with providers as well as any payable or receivable balances. It will treat this expenditure as being with the providers, not the host.

4.729 Although the host may be responsible for making payments to providers, it will only recognise expenditure for its own share of these payments and will net the amounts it pays on behalf of other members against the contributions it receives from them.

4.730 However, for agreement of balances purposes, joint operators and providers will treat the host as the counterparty for payables and receivables, in recognition of its role in settling these, and the host will recognise corresponding payables and receivables.

Other pooled budgets – net accounting

- 4.731 As described above, where joint control does not exist and the host of a pooled budget is acting as an agent, net accounting applies.
- 4.732 This means that the receipts the host receives from other members of the pool are not recognised as income and are effectively netted off against the payments it makes on their behalf.
- 4.733 Each entity must account for its share of the transactions as though it were transacting directly with the ultimate counterparty.
- 4.734 This applies to expenditure and revenue (although a typical co-commissioning arrangement will not generate revenue) with providers (including for agreement of balances purposes).
- 4.735 Members of the pool will treat the host as the counterparty for payables or receivables, in recognition of its role in settling these, and the host will recognise corresponding payables and receivables with them.
- 4.736 Cash contributions to the pool are considered to be transactions with the host. Members must record a receivable from the host for any such amounts paid, until such time as the cash is used to pay providers. Likewise, the host must record corresponding payable amounts.

Example - Net accounting in agency relationship

Consider a pooled budget arrangement between a ICB and a local authority, where the local authority acts as host on an agency basis. The ICB contributes cash of £4m, whilst the local authority contributes cash of £6m. It is assumed that the activity of the pooled budget is shared in direct proportion to these amounts, although it is possible for an agreement to specify a more complex split.

The first transaction is the payment of £4m from the ICB to the local authority. Initially, the ICB recognises this as an amount receivable from the local authority. It does not recognise any expenditure at this stage. The local authority, likewise, recognises a payable to the ICB. Together with its own £6m contribution, the local authority now holds a cash pot of £10m.

The pooled budget members then commission services from providers (of which there may be examples in more than one sector). The local authority settles invoices worth £3m from the pool for services delivered. Under net accounting, it only recognises its own share of £1.8m as expenditure with providers. The remaining £1.2m relating to the ICBs share is treated as reducing the local authority's payable back to the ICB. The ICB,

meanwhile, recognises £1.2m expenditure with providers and reduces its receivable from the local authority. The providers recognise a total of £3m income, split between the local authority and ICB as customers.

At the end of the reporting period, it is agreed that a further £1m of services have been delivered that have yet to be invoiced. The local authority and ICB accrue a further £0.6m and £0.4m expenditure with providers respectively. Additionally, the ICB recognises an accruals payable to the local authority. The local authority recognises a corresponding receivable from the ICB, and an accruals payable for the full £1m with the providers. The providers accrue corresponding income with the relevant counterparties, but recognise an accruals receivable from the local authority only.

When the local authority eventually settles the accrued amount in cash, it offsets its receivable from the ICB against the payable it raised upon receipt of cash into the pooled budget, reflecting the fact that this cash has now been used. The ICB mirrors this offsetting in its own accounts.

These transactions are illustrated in figure 2 below.

- 4.737 For agreement of balances purposes, it is important to note that the counterparty for income and expenditure may not be the direct source or recipient of a payment.
- 4.738 Entities must consider the substance of each element of the arrangement and note the identity of the ultimate commissioner or provider.
- 4.739 For this reason, it is essential that there is effective sharing of information to ensure entities can identify when to recognise a transaction and against which counterparty. Counterparties for payables and receivables will reflect the expected source and destination of cash payments.

Figure 2 – Illustration of net accounting in agency relationship

ICB contributes cash to pooled budget (hosted by LA)

ICB		LA	
Dr Receivable from LA	4.0	Cr Payable to ICB	4.0
Cr Cash	4.0	Dr Cash	4.0

LA contributes cash to pooled budget

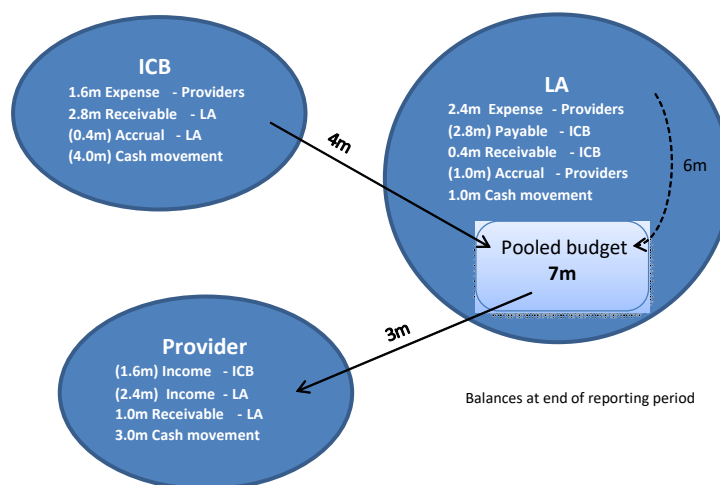
No accounting entries.

LA settles invoices for services from providers

ICB		LA	
Dr Services from providers	1.2	Dr Services from providers	1.8
Cr Receivable from LA	1.2	Dr Payable to ICB	1.2
		Cr Cash	3.0

Accrual for uninvoiced services from providers

ICB		LA	
Dr Services from providers	0.4	Dr Services from providers	0.6
Cr Accruals with LA	0.4	Dr Receivable from ICB	0.4
		Cr Accruals with provider	1.0



Other pooled budgets – gross accounting

4.740 Where joint control does not exist and the host of a pooled budget is acting as a principal, gross accounting applies.

4.741 This means that the receipts the host receives from other members of the pool are treated as revenue and not netted off against the payments it makes to ultimate providers.

4.742 Each entity must account for its direct dealings with other parties to the pool as though no other party is involved.

4.743 This effectively means that the host acts as provider to the other commissioners, whilst the ultimate providers consider only the host to be their customer.

4.744 Consider the same example as above, with the local authority now acting as principal. The first transaction is still the contribution by the ICB of £4m to the pooled budget, which it still treats as a receivable from the local authority – effectively a prepayment.

4.745 The local authority commissions services from providers in order, in turn, to provide services to the ICB. When it settles invoices worth £3m for services delivered, it recognises the whole amount as expenditure with providers. At the same time, it recognises £1.2m income from the ICB and reduces its payable to the ICB. The providers recognise all of their £3m income as being from the local authority.

- 4.746 When a further £1m of accrued services are identified, the local authority again recognises the whole amount as expenditure with providers, and also recognises a £1m accrual with providers. It then recognises £0.4m income from the ICB and reduces its payable to the ICB accordingly.
- 4.747 The ICB will then have recognised a total of £1.6m expenditure with the local authority, and will have reduced its receivable from them to £2.4m. It does not recognise any balances with the ultimate providers.
- 4.748 These transactions are illustrated in figure 3 below.
- 4.749 This approach reduces the need for information sharing, as each entity only recognises amounts in relation to the entities with which it deals directly.
- 4.750 The timing of expenditure recognition by the ICB is still determined by the actual delivery of services by the ultimate provider.
- 4.751 Where a gross accounting arrangement exists, this may have the effect of grossing up transactions in the DHSC group account.
- 4.752 This will occur, for instance, where a ICB recognises expenditure with a local authority for services that are ultimately delivered by an NHS provider.
- 4.753 In this case, the group account will include both the expenditure and income arising from this, without any elimination.
- 4.754 This is not an error, and simply reflects separate transactions with entities outside the group.

Figure 3 – Illustration of gross accounting where host acts as principal

ICB contributes cash to pooled budget (hosted by LA)

ICB		LA	
Dr Receivable from LA	4.0	Cr Payable to ICB	4.0
Cr Cash	4.0	Dr Cash	4.0

LA contributes cash to pooled budget

No accounting entries.

LA settles invoices for services from providers

LA	
Dr Services from providers	3.0
Cr Cash	3.0

LA recognises income from ICB

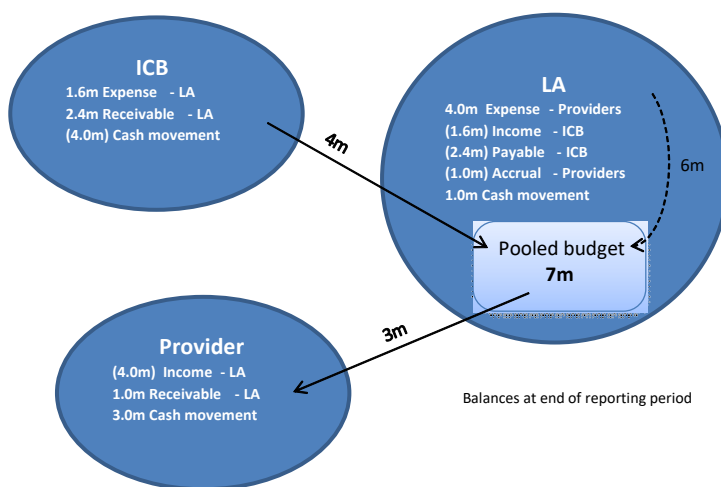
ICB		LA	
Dr Services from LA	1.2	Cr Income from ICB	1.2
Cr Receivable from LA	1.2	Dr Payable to ICB	1.2

Accrual for uninvoiced services from providers

LA	
Dr Services from providers	1.0
Cr Accruals with provider	1.0

LA recognises income from ICB

ICB		LA	
Dr Services from LA	0.4	Cr Income from ICB	0.4
Cr Receivable from LA	0.4	Dr Payable to ICB	0.4



Cash management

4.755 The principles set out in HM Treasury’s [Managing Public Money](#) apply to cash management of pooled budgets.

4.756 The following sections of the guidance are particularly important:

"A5.6.2 Public sector organisations should where possible hold their cash balances with the Government Banking Service (GBS). This makes it possible to sweep the contents of these accounts to high level Exchequer accounts so that at the end of each working day the Debt Management Office (DMO) can assess the government’s cash position overall.

A5.6.4 Good cash management means having the right amount of cash available when needed, without inefficient unused surpluses. Each public sector organisation should plan its own cash management efficiently."

4.757 ICBs operate on the Government Banking Service platform, whereas local authorities have separate banking arrangements.

4.758 Therefore, where a local authority is host to a pooled budget, ICBs must not transfer cash to the local authority in any month which precedes the operational requirement to expend the cash with service providers.

- 4.759 Any other payment arrangement, such as quarterly transfer, will not be appropriate.
- 4.760 Therefore, when transferring cash, the ICB must ensure that the host has provided verifiable evidence of the requirement to expend the cash with service providers in the month of transfer.
- 4.761 Where a ICB is hosting a pooled budget the existing Government Banking Service account must be used for all BCF receipts and payments.
- 4.762 A ICB must not use any other banking facility for BCF related transactions.
- 4.763 HM Treasury's prohibition of drawing down cash in advance of need is particularly relevant to the management of pooled budgets.
- 4.764 While a host entity, quite reasonably, might wish to maintain a cash float such that it is not compelled to use its own supplies of cash to fund pooled budget expenditure, the balance must be kept to the minimum required to ensure smooth operation of the arrangement.
- 4.765 Pooled budget agreements should mandate appropriate information requirements so that the pooled budget manager is able to monitor contract spend, accurately profile future expenditure and cash requirements, and ensure that cash balances held in the pool are minimal.
- 4.766 Pooled budget members will need to maintain their own memorandum accounts that show day-to-day cash funding of the pool. These do not form part of entities' own statutory accounts.

Other reporting requirements

- 4.767 A party to a pooled budget may include details of the arrangement in its financial statements, including a note of its share of the income and expenditure and balances of the pooled budget.
- 4.768 The extent of any disclosure required will depend on materiality and on the accounting standards applied.
- 4.769 Working papers will be needed to support accounts entries that result from pooled budget activities.
- 4.770 Under section 75 and associated regulations (SI 2000 No. 617, NHS Bodies and Local Authorities Partnership Arrangements Regulations 2000), a pooled budget manager is required to submit quarterly and annual reports to other members to

cover the income to, and expenditure from, the pooled fund, and other information by which the members can monitor the effectiveness of the arrangements.

4.771 This minimum requirement will not be sufficient to meet the needs of NHS pooled budget members and providers, as:

- timeframes are not specified
- financial reporting requirements of ICBs far exceed the headline reporting of income and expenditure, and
- the regulations are silent on the data requirements of NHS providers, which mirror those of NHS members.

4.772 ICBs need to fulfil cash management requirements, and so will need reports from host bodies on a monthly basis.

4.773 NHS providers will need statements from the pooled budget host to ensure that providers can identify their correct counterparties and transactions and balances with them.

4.774 These statements will be required on at least a quarterly basis and in time to meet deadlines for agreement of balances exercises and submission of accounts.

4.775 Parties to a pooled budget must therefore agree appropriate reporting arrangements.

New Models of Care

4.776 Under New Models of Care proposals, some NHS bodies will enter into arrangements to provide integrated care on a 'whole population' basis. This is likely to involve collaborative working agreements that may constitute joint arrangements and may involve separate vehicles.

4.777 Until the organisational forms of providers under these arrangements become clear, it is not possible to provide detailed accounting guidance. However, it is to be expected that the accounting will follow the principles set out in this annex.

Chapter 4 Annex 9: Reporting requirements on change of status

- 4.778 This annex provides information to all users on the reporting requirements arising from a change in entity status.
- 4.779 Entities should consult the subsection relevant to their circumstances. Not all of the guidance included in this annex will apply to every entity.
- 4.780 Information on the accounting treatment of such changes in status can be found in paragraphs 4.404

NHS trusts attaining NHS foundation trust status

Action for NHS trusts

- 4.781 The trust is responsible for reporting its financial position for the period it was an NHS trust both prior to and post its authorisation as an NHS foundation trust in accordance with the national timetable issued by NHSE.
- 4.782 It is important that all trusts (including those subject to mid-year transactions) adhere to the national timetable.
- 4.783 The trust must ensure that there are adequate resources available post authorisation to continue to provide NHSE with robust monitoring information until the financial year end in accordance with the national timetable.
- 4.784 The trust must also ensure that there are robust arrangements in place to respond promptly to any queries arising as a result of the reporting requirements or ad hoc queries in respect of the period prior to authorisation.
- 4.785 Further guidance regarding the completion of summarisation schedules and practical issues on change of status is obtainable by contacting NHSE, who will advise trusts on the course of action most appropriate to the circumstances.
- 4.786 For the equivalent requirements on transition to foundation trust status, see paragraph 4.787 below.

Action for NHS foundation trusts

- 4.787 When an NHS trust is authorised as an NHS foundation trust, an ARA must still be published for the final period of the NHS trust's existence.
- 4.788 This may cover a full financial year where the change in status occurs on 1 April or a shorter period where the change in status occurs during the financial year.
- 4.789 NHS foundation trusts will be required to prepare the final accounts and summarisation schedules for the predecessor NHS trust and meet the deadlines set by NHSE.
- 4.790 NHS foundation trusts should be aware that auditors may require the NHS trust accounts to be prepared in accordance with the NHS foundation trust deadline, where earlier, in order for the auditor to issue their report on the NHS foundation trust accounts as the opening balances of the foundation trust are provided by the closing balances in the NHS trust accounts.
- 4.791 A public meeting must be held by 30 September following the end of the financial year in which the NHS foundation trust was authorised at which the predecessor NHS trust's ARA for the final period of NHS trust status must be presented.
- 4.792 The ARA and summarisation schedules for the final period of NHS trust status must be prepared in accordance with this manual.
- 4.793 Two separate sets of ARAs for the final NHS trust period and first period as an NHS foundation trust must be prepared.
- 4.794 Where an NHS foundation trust is authorised from 1 April, there is no requirement to include prior year comparatives for the Statement of Comprehensive Income (SoCI), Statement of Changes in Taxpayers' Equity (SoCTE) and Statement of Cash Flows (SoCF).
- 4.795 However, the opening Statement of Financial Position (SoFP) must be included in the accounts and some supporting notes will have to include an opening balance.
- 4.796 The note for mid-year authorised NHS foundation trusts in the summarisation schedules, issued by NHSE, is also required to be completed.
- 4.797 These must be drawn up in accordance with the provisions of this manual.
- 4.798 Where an NHS foundation trust is authorised part way through a financial year, two part-year sets of accounts are required.

- 4.799 The first part-year accounts in respect of the predecessor NHS trust must be prepared in accordance with this manual as applicable to NHS trusts.
- 4.800 The second part-year accounts in respect of the NHS foundation trust must be prepared in accordance with this manual as applicable to NHS foundation trusts.
- 4.801 Opening balances for the SoFP and related notes as at the date of the NHS foundation trust's establishment must be disclosed but no other comparatives are required.
- 4.802 These must be drawn up in accordance with the provisions of this manual.
- 4.803 An NHS foundation trust which is authorised part way through a financial year will show only part year comparatives against its full year results in its second year of operation.
- 4.804 The difference in accounting periods must be explained in a narrative note to the accounts.

New NHS trusts and foundation trusts in their first period of operation

- 4.805 This section does not apply where an NHS trust is authorised as an NHS foundation trust, covered in the separate section outlined in paragraph 4.781 onwards.
- 4.806 An NHS trust or foundation trust may be created directly as a new body, rather than, for instance, an NHS trust attaining foundation trust status.
- 4.807 Where such a body takes over the functions of previous bodies, related assets and liabilities will transfer to the new body through transfer by absorption, as described from paragraph 4.380.
- 4.808 The new provider will therefore begin with a nil opening balances and will record inward absorption transfers immediately following its creation.
- 4.809 It is not required to disclose a nil comparative SoFP and nil opening positions for related notes. Instead the new provider must disclose a comparative SoFP and related notes as at the date of authorisation after recording the initial transfer(s) by absorption from predecessor organisations.
- 4.810 The SoCTE must separately identify the equity transferring as a result of the opening absorption transfers.

- 4.811 The first row in the SoCTE will be 'opening transfers by absorption', recording the effect of the absorption gain or loss on the income and expenditure reserve, with a further row showing transfers between reserves for the absorption transactions if necessary.
- 4.812 The row for 'surplus/deficit for the year' must be renamed to exclude the effect of the opening transfer by absorption on surplus/deficit.
- 4.813 Any separate transfer by absorption (not part of the opening position of the entity) must be shown in subsequent rows as normal.

NHS trusts and foundation trusts in their final period of operation

- 4.814 This section does not apply where an NHS trust is authorised as an NHS foundation trust, covered in the separate section outlined in paragraph 4.781 onwards.

Preparation of annual report and accounts

- 4.815 Where an NHS provider ceases to exist during or at the end of a financial year, the ARA must be prepared for that period in accordance with this manual.
- 4.816 The ARA must be prepared for the period from 1 April up to the date that the NHS provider ceased to exist.
- 4.817 This date may be considered to be the day before the date cited in a transfer order and/or legislation which transfers assets and liabilities to other bodies and dissolves the trust at midnight on that date.
- 4.818 For example if the trust is dissolved on 1 October (at midnight), it is reasonable to prepare for the final period accounts as at 30 September, immediately prior to the outward transfers.
- 4.819 Where 31 March is used to reference the end of the reporting period elsewhere in this manual, it must be replaced with the date at which the accounts are being prepared.
- 4.820 The final period ARA must be submitted in line with the DHSC Group Annual Report and Accounts Plan 2021-22.
- 4.821 When an NHS provider ceases to exist and its services, assets and liabilities are transferring to one or more NHS bodies or the Secretary of State, one of the

receiving bodies will assume responsibility for the preparation of the final period ARA.

- 4.822 Where the transfer and closure occur significantly earlier than 31 March, the receiving body may wish to prepare the final period accounts in advance of the deadlines described in the DHSC Group Annual Report and Accounts Planning.
- 4.823 The ARA can only be finalised once the post-consultation FT ARM and/or GAM for that year has been issued.
- 4.824 The receiving body will also be asked to provide a later “Events after the Reporting Period” confirmation to NHSE for the purposes of the consolidated trust or foundation trust accounts and the whole of government accounts.
- 4.825 The chief executive of the nominated receiving body referred to in paragraph 4.821 will be required to take on the role of accounting officer for this final period ARA.
- 4.826 The chief executive must ensure he or she is able to obtain the necessary assurances to enable them to make the required declarations.
- 4.827 NHS providers are reminded to refer to paragraphs 4.18 to 4.27, which set out how the going concern concept is adapted for the public sector. This definition will continue to apply to the final period ARA.
- 4.828 Where an NHS provider in special administration has ceased to provide services and its provider licence has been revoked during the year but the entity continued to exist at the end of the financial year, it remains that provider’s responsibility to prepare an ARA for the year and have it audited.
- 4.829 The ARA will be prepared for the full financial year and must be prepared in accordance with the requirements of this manual.
- 4.830 It is likely that such a shell organisation will have arrangements in place with another entity (probably a receiving body for its former services) to prepare the ARA on its behalf, but it is the accounting officer of the now unlicensed provider who will certify the ARA.

Practical arrangements for annual reports and accounts

- 4.831 The National Health Service Act 2006 sets out a requirement that an NHS provider must present its ARA to the board, in the case of an [NHS trust \(Schedule 15\)](#), or to the council of governors, in the case of a [foundation trust \(paragraph 28, Schedule 7\)](#).

- 4.832 This requirement does not apply to the final period ARA, because the board or council of governors for that provider will no longer exist when the final period ARA is prepared.
- 4.833 NHS trusts only: A public meeting must be held by the successor body by 30 September following the end of the financial year in which the NHS trust ceased to exist. The NHS trust's ARA for its final period of operation must be presented.
- 4.834 NHS foundation trusts only: The requirement in paragraph 25(4a), Schedule 7 of the National Health Service Act 2006 that an NHS foundation trust's ARA must be laid before Parliament will continue to apply.
- 4.835 This responsibility will fall to the receiving body referred to in paragraphs 4.821. Where the foundation trust continues to exist but is unlicensed at the end of the financial year, that foundation trust is responsible for ensuring the ARA is laid before Parliament, although this may be performed with the support of another organisation as envisaged by paragraph 4.828.

Content of accounts and summarisation schedules: for an NHS provider that ceased to exist during the year

- 4.836 The transfer of assets and liabilities to receiving NHS bodies will be accounted for under absorption accounting as set out from paragraph 4.380.
- 4.837 The date at which the final period accounts are prepared may be immediately prior to the outward transfer, as envisaged by paragraph 4.815. In this case the outward transfer has not yet happened and so will not be reflected in the accounts, except as an event after the reporting period.
- 4.838 In the final period accounts the SoFP will record the final balances prior to outward transfers (i.e. will not be nil).
- 4.839 The NHS provider summarisation schedules will still be prepared as at 31 March (and 31 December).
- 4.840 If the summarisation schedules are prepared as at a date after the outward transfer and the closure of the trust, the summarisation schedules will have a nil SoFP, with the closing balances written out as a transfer by absorption.
- 4.841 Paragraphs 4.380 to 4.404 set out the disclosure requirements for transfers by absorption. In addition to these requirements, in the final period accounts the NHS provider must disclose details of the outward transfers and dissolution of the NHS provider as part of its disclosure of events after the reporting period.

4.842 This disclosure must include summary information showing to which receiving bodies the assets and liabilities in the SoFP have been transferred. Totals of non-current assets, current assets, current liabilities, non-current liabilities and net assets must be presented as a minimum. For example, this may be presented as follows:

Analysis of balances transferred to successor organisations (£000)				
Summarised final statement of financial position [this must agree to the SoFP]		Amounts transferred to:		
		[name of receiving body 1]	[name of receiving body 2]	Total
Non-current assets	XX	YY	ZZ	XX
Current assets	XX	YY	ZZ	XX
Current liabilities	(XX)	(YY)	(ZZ)	(XX)
Non-current liabilities	(XX)	(YY)	(ZZ)	(XX)
Net assets/(liabilities)	XXX	YYY	ZZZ	XXX

Content of accounts and summarisation schedules: for an NHS provider that ceased to provide services during the year but continued to exist at the end of the year

- 4.843 The transfer of assets and liabilities to receiving NHS bodies will be accounted for under absorption accounting as set out from paragraph 4.380.
- 4.844 In the final period accounts the SoFP will record nil balances at the year-end (Or small balances relating to any residual assets and liabilities which remain in the provider. This guidance assumes that the residual balances will be nil for ease of exposition).
- 4.845 Notes to the SoFP will record the balances as being divested by transfers in both the accounts and the summarisation schedules. In the accounts it is recommended that this line in the SoFP movements notes is presented at the bottom of each relevant note immediately before the total (which will be nil) to make this clearer to the reader of the accounts.
- 4.846 This will not apply to SoFP notes such as receivables and payables where a movements note is not usually presented.
- 4.847 Paragraphs 4.380 to 4.392 set out the disclosure requirements for transfers by absorption. In addition to these requirements, in the final period accounts the NHS provider must disclose in a note to the accounts:
 - A clear statement of the date on which services ceased to be provided by the provider, the fact that the accounts are being prepared as at 31 March, and the reasons for this.

- The SoFP (without notes, although the NHS provider may provide further information if desired) immediately prior to the outward transfer(s) when services ceased to be provided. This SoFP will therefore represent the total amounts being transferred out (plus, exceptionally, any balances remaining in the provider).
- Summary information showing to which receiving bodies the assets and liabilities in the SoFP have been transferred. Totals of non-current assets, current assets, current liabilities, non-current liabilities and net assets must be presented as a minimum. For example, this may be presented as follows:

Analysis of balances transferred to successor organisations (£000)				
Summarised statement of financial position as at [date] [this must agree to the full final SoFP provided in the note above]	Amounts transferred to:			
		[name of receiving body 1]	[name of receiving body 2]	Total
Non-current assets	XX	YY	ZZ	XX
Current assets	XX	YY	ZZ	XX
Current liabilities	(XX)	(YY)	(ZZ)	(XX)
Non-current liabilities	(XX)	(YY)	(ZZ)	(XX)
Net assets/(liabilities)	XXX	YYY	ZZZ	XXX

Other establishment, merger and dissolution guidance

- 4.848 For further information regarding the requirements for NHS providers involved in proposed dissolutions and mergers, including requirements for disclosure of management information and completion of accounts summarisation schedules, refer to additional guidance issued by NHSE.

Changes to Integrated Care Boards

- 4.849 ICBs must follow the relevant guidance which can be found on the NHSE website. Where a new ICB entity is formed, it must disclose a comparative SoFP and related notes as at the date of authorisation after the initial transfer(s) by absorption from predecessor organisations.

Changes to DHSC ALBs

Creation of new arm's length body

- 4.850 Newly established DHSC ALBs are required to complete an accounts summarisation schedule, to be submitted to the Department of Health and Social Care for consolidation into the DHSC group accounts.

- 4.851 DHSC ALBs must also complete an ARA as described in Chapter 3 of this manual, to be laid before Parliament within the indicated timeframe.
- 4.852 Where a DHSC ALB is established after the beginning of the financial year, it must complete an ARA up to a reporting period end of 31 March, unless the establishing legislation specifies otherwise.
- 4.853 There is still a requirement to complete summarisation schedules with the accounting details for the standard financial year of up to 31 March. Where the annual report differs (for example with a 15-month account), the amended reporting period must be made clear.
- 4.854 Where the establishment of a DHSC ALB has arisen from a transfer of functions from an existing DHSC ALB within the DHSC group, and there is an associated transfer of assets, the new ALB must ensure that the disclosure requirements for transfers by absorption accounting are followed, as set out from paragraph 4.380.
- 4.855 This especially applies to the summarisation schedules as any transfers must eliminate across the DHSC group.

Changes in status

- 4.856 The reporting requirements are no different should an DHSC ALB change status (for example, from special health authority to a DHSC NDPB) at the beginning of the financial year.
- 4.857 The entity will still be required to submit accounts summarisation schedules and publish an ARA in line with this manual.
- 4.858 There may be an additional requirement to complete an accounts summarisation schedule to clear out the closing balance from the previous financial year, although discussion should take place with DHSC as to whether this will be completed by the ALB, or can be done by DHSC.
- 4.859 Where the change in status occurs during the financial year, the DHSC ALB must be prepared to complete two summarisation schedules at each submission period, one showing the activity of the ALB up to the point of the change in status, and one showing the activity of the ALB from the date the status changed up to the reporting date.
- 4.860 There will still be a requirement to complete an ARA to be laid before Parliament, as outlined in Chapter 3 of this manual.

- 4.861 ALBs must discuss the reporting requirements with DHSC as, depending on the change of status, there may be a requirement to complete two annual reports or use an extended first period of reporting after the change in status.
- 4.862 Should the change in status of a DHSC ALB be accompanied by a transfer of functions/assets from another body, the ALB must ensure the requirements of transfer by absorption are followed, as set out from paragraph 4.380.
- 4.863 This is especially important when completing summarisation schedules to ensure that any transfers occurring within the DHSC group eliminate on consolidation.

Dissolution of DHSC ALBs

- 4.864 Where a DHSC ALB is due to be dissolved after the end of the financial year, the ALB must follow the accounting and annual reporting requirements set out in this manual, as it will be in existence at the reporting date.
- 4.865 Arrangements must therefore be put into place to ensure that the reporting deadlines falling after dissolution can still be met.
- 4.866 DHSC will need to complete an accounts summarisation schedule in the next financial year to ensure the SoFP is cleared to zero, and any transfers of assets and functions are recorded correctly.
- 4.867 The ALB must ensure that a record of balances that are transferring within the WGA boundary are made available so that DHSC can ensure that any transfers by absorption within the DHSC group can be eliminated on consolidation.
- 4.868 If dissolution is to occur during the financial year, arrangements must be made to enable subsequent summarisation schedules to be completed up to the reporting year end.
- 4.869 As described in paragraph 4.866 above, a record must be kept of any functions/assets being transferred within the WGA boundary to allow the accurate elimination of transfers by absorption within the DHSC group.
- 4.870 Further guidance is provided from paragraph 4.380.

Chapter 4 Annex 10: Accounting for Maternity Pathways

4.871 This annex provides guidance on how to apply accounting considerations under IFRS 15 to Maternity Pathways, to replace guidance that was accessible through via a link in the GAM in previous financial years.

Scope of IFRS 15

4.872 On the adoption of IFRS 15 Revenue from Contracts with Customers, adapted and interpreted by HM Treasury for application in the public sector, entities will need to consider how any revised approaches to revenue recognition will impact on current practices.

4.873 It is viewed that maternity pathways falls within the scope of IFRS 15. This is because;

- Pathways aligns to the qualifying criteria of the Standard, which are as follows;
 - the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
 - the entity can identify each party's rights regarding the goods or services to be transferred;
 - the entity can identify the payment terms for the goods or services to be transferred;
 - the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
 - it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.
- To avoid doubt regarding the public sector relevance of IFRS 15, the definition of a contract has been expanded, via a HM Treasury adaptation, to include legislation and regulations which enable an entity to obtain revenue not classified as a tax by ONS.

4.874 As such pathways either falls into scope of IFRS 15 from a conventional interpretation of IFRS 15, in meeting all of the criteria established, or via HM Treasury's adaptation.

- 4.875 The below provides a summarised view of the IFRS 15 compliant considerations that will need to be made regarding maternity pathways from both a commissioner and provider perspective.

ICB perspective

- 4.876 The PbR rules regarding maternity pathways changed in 2013-14. The key aspect is as set out in the NHS PbR Guidance 2013-14, para 648:

"Commissioners should make one payment per pregnancy for all antenatal care included in the scope (although payments for the delivery or postnatal modules of the pathway may be paid to different providers). The provider receiving this payment will be known as the lead provider."

- 4.877 The commissioner is therefore obliged to make one payment covering the whole of the maternity pathway at the point at which the woman first presents for treatment.
- 4.878 The guidance is then clear that should the care be split between different providers, it is the responsibility of the lead provider to pay for this, and the separate providers to work together to determine the appropriate transaction price for the performance obligations to be satisfied by each provider which will determine the revenue and appropriate contract liabilities to be apportioned.
- 4.879 From the ICB's perspective therefore, this is a contractual payment in line with the terms of the pathway. It is considered that the good or service being transferred to the ICB through its commissioning, is the patient receiving 'treatment'. Nevertheless, as a customer there remain important considerations for the ICB to follow.
- 4.880 Where activity to satisfy the performance obligations under the contract is not complete at year end, the relation between performance and payment under the contract must be recognised on the statement of financial position (as per paragraph 106 of the Standard).
- 4.881 It is expected that the commissioner will reflect the economic substance of the transaction as a prepayment in its accounts. This reflects the principles of IFRS 15, which more directly apply to the income for the provider as covered below.
- 4.882 The value of this prepayment should normally reflect the deferred income, or contract liability, recorded in the lead provider's accounts.

- 4.883 The Standard requires the provider to measure the progress made towards complete satisfaction of the performance obligation at the end of each reporting period, as per paragraph 39.
- 4.884 More detail in regards to this process is provided in the provider perspective below. This will form part of the accruals statement for the agreement of balances exercise.

Provider perspective

- 4.885 As determined in the scoping section, there is a need to consider the requirements of IFRS 15 for this revenue stream.
- 4.886 Having identified there is a contract in existence, it is necessary to identify the performance obligations within the contract and to determine and allocate the transaction price to the obligations. This will enable an IFRS 15 compliant model of revenue recognition to be adopted.
- 4.887 The most appropriate classification of the contract and performance obligations underneath maternity pathways is as a single contract in which only a single performance obligation exists, that is satisfied and thus revenue is likewise, recognisable over time. The rationale behind this judgement is detailed in the below section.

Rationale behind Revenue Classification

- 4.888 Regarding the single contract element of the above judgement, as per paragraph 22 of the Standard, an entity is required to assess the amount of distinct goods or the series of distinct goods that exist in a contract with a customer, to identify the performance obligation/s that exist.
- 4.889 Goods are judged to be distinct if; the customer can benefit from the good or service on its own or together with other resources readily available, and the promise to transfer a specific service is separately identifiable from other promises/ obligations in the contract.
- 4.890 Paragraph 29 of the Standard provides factors which may indicate when services are not separately identifiable.
- 4.891 The first and third factors appear relevant for the maternity pathway. The first suggests that promises are not separate when an entity is using the services provided as inputs to deliver a combined output specified by the customer, which

may contain more than one phase. The third notes that a service is not separate if it is highly interdependent or interrelated with other services in the contract, therefore, being significantly affected by one or more other services in the contract.

- 4.892 Where this is the case the entity is required to combine goods or services until a bundle becomes distinct. It is interpreted that the pathways good or services need to be bundled to the extent that goods or services only become distinct, when viewed as a single performance obligation in its entirety.
- 4.893 Regarding the point at which the obligation in the contract is satisfied, obligations are viewed as being satisfied over time if any of the three criteria in paragraph 35 of the Standard are met.
- 4.894 Maternity pathways could be seen as meeting the first of these in that the customer simultaneously receives and consumes the benefits provided by the entity's performance as they are performed.
- 4.895 IFRS 15 paragraph B4 states that customers receive and consume benefits when another entity would not need to substantially re-perform the work completed to date if fulfilling the remaining obligations.
- 4.896 The utilisation of the Maternity Minimum Data Set, accessible for Commissioners and Providers, to help avoid double booking and cross-provider charging that would be incurred in substantially re-performing the service, appears to satisfy this condition.
- 4.897 Maternity pathways could also be viewed as satisfying the third criteria in paragraph 35 of the Standard, as the service is not creating an asset with alternative use.
- 4.898 This is due to the fact that the asset is not largely interchangeable (see IFRS 15 paragraph B7) and the provider has an enforceable right to payment for performance completed to date as per paragraph 678 of the PbR guidance, which identifies that Commissioners should pay for all three modules in the pathway.
- 4.899 Given the above there is strong rationale to the satisfied over a period of time classification of the performance obligation.
- 4.900 To enable providers to identify the appropriate level of revenue to recognise based on the above considerations, there is a need to determine the appropriate transaction price and the appropriate method of measuring progress to satisfaction of the performance obligation under maternity pathways.

- 4.901 The below provides detail as to how a provider can arrive at the appropriate price to allocate to the performance obligation and how to measure progress towards satisfaction of the obligation.
- 4.902 In determining the transaction price providers will need to take note of the various elements that can have effect on the price as per paragraph 48 of the Standard.
- 4.903 In particular it will be key to take note of any variable considerations that may increase or reduce the transaction price (discounts or performance bonuses for instance), but only to the extent that it is not highly probable a significant reversal in revenue recognised would occur when uncertainty around the variable consideration is resolved.
- 4.904 Paragraphs 56 to 59 of the Standard provide guidance regarding this assessment.
- 4.905 There is a need to make an assessment to measure the provider's progress towards satisfaction of the obligation under maternity pathways.
- 4.906 This assessment is critical as an entity is only allowed to recognise revenue over time if the entity can reasonably measure its progress under paragraph 44 of the Standard.
- 4.907 It is noted that whatever method is adopted (various types of input or output methods are described in paragraphs B14 to B19) it needs to be applied consistently in similar circumstances.
- 4.908 Providers may wish to note the practical expedient offered for output methods in paragraph B16 of the Standard which enables the entity to recognise revenue corresponding to the amount it has a right to invoice for, if the right exists to consideration based directly on performance completed to date.
- 4.909 The overarching objective of this process is to depict a provider's performance in satisfying the performance obligation under the contract.
- 4.910 Whichever method is viewed as most appropriate for the provider to utilise, the standard makes clear that the method needs to be backed up by reliable information.
- 4.911 With the interpretations of IFRS 15 being taken as above, consideration as to revenue recognition at period end can now be made. In reality with the interpretations taken above there will be little change from the previous IAS 18 treatment of the revenue received by providers.

Revenue Recognition

- 4.912 Whilst payment is made upfront by the ICB at the point at which the woman first presents for treatment, revenue can only be recognised to the extent to which the performance obligation has been satisfied.
- 4.913 As per the ICB perspective, where activity to satisfy the performance obligations under the contract is not complete at year end, the relation between performance and payment under the contract must be recognised on the statement of financial position.
- 4.914 Therefore, as per paragraph 106 of the Standard, if a customer pays consideration before the entity (provider) transfers a good or service, the entity shall present the contract as a contract liability. A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration from the customer.
- 4.915 As such revenue should be recognised to the extent that the progress had been made in satisfying the obligation and were payment goes above this, the revenue should be deferred and recorded as a contract liability, to be released as appropriate on further progression towards completion of the obligation.

Lead Provider – secondary transactions

- 4.916 As mentioned in the ICB perspective there are scenarios in which some of the services will be provided by alternative providers and thus the lead provider will need to pay the alternative provider.
- 4.917 IFRS 15 requires a determination to be made for each distinct good service as to whether a provider would be a principal or agent.
- 4.918 Note that from the above rationale articulated for providers, it was viewed that the entire pathway was the distinct service provided. The determination as to principal or agent relates to control.
- 4.919 IFRS 15 paragraph B35 indicates that an entity 'is a principal if it controls the specified good or service that is transferred to a customer'.
- 4.920 B37 identifies a number of indicators of control and providers should take particular note of the indicator given in B37 (a) which confirms, 'the entity is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified

good or service (for example, primary responsibility for the good or service meeting customer specifications)'.

- 4.921 The existence of principal based control mechanism appears to be met in the PbR regulations, where it is noted in paragraph 650 that if 'a woman chooses to use a provider other than the lead provider for part of her care (e.g. a scan, an investigation or appointment etc) or where the woman is referred to a different pathway provider for any reason, it is the responsibility of the lead provider to pay the other organisation. They remain accountable for the care however, and should have contracts in place for this activity.'
- 4.922 As such it is expected that the lead provider will be acting as a principal in this transaction and is not merely acting as an agent on behalf of the commissioner or other providers.
- 4.923 As such the lead provider should account for its income gross and separately for expenditure where it has passed on monies to alternative providers. (The secondary provider will also be acting as a principal in the provision of the services to the patients).

Conclusion

4.924 The determinations made by the above analysis are as follows;

- Maternity pathways are in scope of IFRS 15 as adopted and interpreted for the public sector context by HMT.
- Maternity Pathways is most appropriately viewed as single contract in which a single performance obligation exists that is satisfied over a period of time,
- Therefore, revenue should be recognised over time and only to the extent to which performance has been satisfied, with any payment beyond this being recognised as a contract liability.
- Entities will need to consider the most appropriate method of assessing progress towards satisfaction of the performance obligation.
- The lead provider embodies control and thus is viewed as the principal.
- Secondary providers act as a principal in the provision of services to patients

4.925 Given the above determinations accounting treatment differs little to the approach taken under IAS 18.

Chapter 4 Annex 11: Accounting for Leases under IFRS 16

Introduction

4.926 This annex provides an overview of the revised accounting requirements for leases and guidance on how to apply them. It describes how IFRS 16 is adapted and interpreted in the FReM and in this manual. It also addresses the transition from IAS 17 to IFRS 16 in the 2022-23 financial year.

4.927 IFRS 16, Leases was published in its completed version in January 2016. It introduces a singular lessee accounting approach to the measurement and classification of leases, as well as a modified classification approach for lessors.

4.928 The standard provides for enhanced disclosure requirements for both lessee and lessors.

4.929 The accounting for some leases is already covered by specific IFRS Standards and thus fall outside of scope of IFRS 16. This includes:

- leases relating to the exploration for or use of minerals, oil, natural gas and similar non-regenerative resources;
- leases of biological assets within the scope of IAS 41 Agriculture held by a lessee;
- service concession arrangements within the scope of IFRIC 12 Service Concession Arrangements, from an operator perspective. Entities should note the application of IFRS 16 to the accounting for PFI arrangements detailed in Chapter 4 Annex 5 of the GAM;
- licenses of intellectual property by a lessor in scope of IFRS 15 Revenue from Contracts with Customers; and
- rights held by a lessee under licensing arrangements within the scope of IAS 38 Intangible Assets for items as described in 3 (e) of the Standard (patents, copyrights and picture films for example). The option to apply IFRS 16 to intangible assets per paragraph 4 of the Standard is separately considered in paragraph 4.1004.

4.930 Additionally, practitioners should have an awareness of where application of other standards is required by IFRS 16. Instances include IFRS 9 impairment reviews and IFRS 15 to govern sale and leasebacks as well as consideration allocation of non-lease components for lessors.

HM Treasury interpretations and adaptations

4.931 HM Treasury has interpreted and adapted IFRS 16 as set out in the FReM and detailed in this guidance at paragraphs 4.242 and 4.243.

Identifying a Lease

4.932 At the inception of a contract an entity shall assess whether a contract is or contains a lease. Inception is defined as the earlier of the date by which an agreement is reached and the date by which a commitment is made by the parties to the contract regarding the principal terms and conditions of a lease.

4.933 Paragraphs B9 to B31 of the Standard offer significant guidance on the systematic approach to be taken to determine whether a contract or arrangement contains or is a lease. This approach requires the consideration of three high level questions:

- Is there an identified asset (inferred or specified by the arrangement) that the supplier doesn't have a substantive right to substitute throughout the period of use? Substitution that cannot be prevented by the customer, or substitution that enables the supplier to economically benefit from the situation would be viewed as delivering substantive substitutional rights for the supplier.
 - Does the customer have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use by the customer? (for example, by having exclusive use of the asset throughout that period). Economic benefits can be direct and indirect, primary outputs and by-products.
 - Does the customer have the right to direct how and for what purpose the asset is used? The customer is viewed most basically as having this right if it can make changes to how and for what purposes the asset is used during the period of use. Examples given in the Standard include;
 - the rights to change what type and amount of output the asset produces.
 - the right to change when the asset is used, or the output produced.
 - the right to change where the asset is used, and the output is produced
 - and right to change whether the asset is used, or the output is produced.
- 4.934 The illustrative examples below provide sectoral examples of the assessment required in B9 to B31 being employed.

4.935 The below judgements will not provide accounting determinations for all instances in which entities enter into such arrangements.

4.936 The examples do not remove the requirement for each entity to assess at the inception of a contract, whether the contract is or contains a lease, per paragraph 9 of the Standard.

Illustrative examples

Example 1 - Staff benefits - Car Leases scheme

A company (employer) provides its employees with a car lease scheme. Under the scheme employees can lease cars using the employer's lease car suppliers, normally for a period of three years. The employee benefits from insurance cover and maintenance charges which will be included in the rental payments. In exchange the employee commits to the monthly lease rental payments which are collected from the salary through salary sacrifice. The employee is also responsible for selecting the car and regular maintenance throughout the period of the lease. At the end of the lease term car is returned to the dealer and the employee accept any liability arising from excess mileage and inadequate maintenance during lease term.

The arrangement does not contain a lease for the employer.

Although the employer accepts some financial liability in this arrangement (such as early termination fee paid to the car dealer if the employee was to retire on ill health grounds or be made redundant, which should be accounted for as appropriate), IFRS 16, paragraph B9, states that, to assess whether a contract conveys the right to control the use of an identified asset, an entity shall assess whether it has both:

- 1) The right to obtain substantially all the economic benefits from use of the asset, and
- 2) The right to direct the use of the identified asset.

In this scenario, it is the employee, not the employer, who has the rights in 1 and 2 above, with the substance of the arrangement being that the employer entity is simply facilitating a tax effective way for the employee to obtain the vehicle. This is demonstrable by the fact that the arrangement must be terminated if the employee reaches the national minimum wage limit.

The vehicle is effectively the employee's vehicle to use as he/she wishes, with the lease payments being a salary sacrifice to optimise the employee's tax position.

Example 2 - Continuing Healthcare

An Integrated Care Board (ICB) (customer) enters into a contract with a local independent care home (supplier) to rent 10 care beds in single occupancy rooms and for provision of supplementary services including full board and medical care provided by staff of the care home. Premises provided by the supplier also include a dedicated therapy space, dining space and access to resident lounges and communal area. The agreement specifies the number of rooms, but the customer does not stipulate which rooms should be made available. Substitution rights by the supplier are not considered to be substantive.

This agreement contains an explicitly identified asset: single occupancy bedroom as well as implicitly identified asset: access to common areas. The customer has the right to obtain substantially all of the economic benefits of the rooms that are specified within the contract and some economic benefits from the shared areas.

The contract does not contain a lease

The contract may contain an identified asset from which the customer will enjoy substantially all the economic benefits. The arrangement does not give the customer the right to change how and for what purpose the "rooms" are used, but the purpose of the rooms is pre-determined in the contract. The customer does not have further decision-making rights about the use of the rooms during the period of use. The customer has no right to operate the asset during its use, or to direct operations in a manner that conveys this right, with the supplier fully able to determine its operating approach. The customer has not designed the asset either. The customer therefore does not possess the right to direct the use of the asset per B24 (b) (i) or (ii).

4.937 It is important to note that in identifying a lease there are FReM adaptations to consider, alongside the transitional expedient mandated to be employed which does not require the application of paragraphs 9 to 11 in IFRS 16 adoption for existing leases.

4.938 The FReM adaptation to widen the definition of a contract to cover intra governmental arrangements that aren't legally enforceable, ensures that all lease like arrangements of an intra governmental nature, formal or informal, should be interpreted as in scope of IFRS 16, as the substance of the arrangement is akin to an enforceable contract.

4.939 Despite the adaptation, it remains necessary to assess such arrangements to ensure the intra governmental arrangement to be determined a lease does meet the requirements of IFRS 16 described above.

- 4.940 Arrangements that involve a peppercorn consideration are to be identified as a leasing arrangement and are to be accounted for in accordance with the adaptation detailed in paragraph 4.243.
- 4.941 The application of the public sector approach for peppercorn leases under IFRS 16 is only applicable to arrangements that meet the definition of lease in every other respect.
- 4.942 A lessee has an option to employ the expedient offered in paragraph 15 of IFRS 16 that states a lessee can account for lease and non-lease components of a contract as a single lease, by class of underlying asset.
- 4.943 Such componentisation is only available where the entity is a lessee. For lessors, consideration for non-lease components of a contract must be allocated in line with IFRS 15 paragraphs 73 to 90.

Lease Term

- 4.944 The lease term begins at the commencement date and includes any rent-free periods provided to the lessee by the lessor.
- 4.945 The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.
- 4.946 The right of use asset and corresponding lease liability as measured per the below guidance, are only recognised at the commencement date.
- 4.947 This is different to the inception date which relates to when an agreement is reached between the parties as defined in paragraph 4.932
- 4.948 A lease term is defined by the Standard as the non-cancellable period for which a lessee has a right to use an underlying asset, together with both;
- Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
 - Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.
- 4.949 After the commencement date, a lessee is only required to reassess the lease term upon the occurrence of a significant event or a significant change in circumstances that is within control of the lessee and affects whether the lessee is reasonably certain to exercise, or not exercise, an option which previously informed the assessment made regarding the lease term.

4.950 Instances of significant events or changes include:

- significant leasehold improvements not anticipated at the commencement date,
- a significant modification to, or customisation of, the underlying asset that was not anticipated at the commencement date,
- the inception of a sublease of the underlying asset for a period beyond the end of the previously determined lease term.

4.951 Guidance on short-term exemptions available to entities have been provided from paragraph 4.990 of this manual.

4.952 Additional guidance on assessment of the lease term can be found in the appendix B of IFRS 16 in paragraphs B34 to B41.

Lessee Accounting

Measurement of a Lease

4.953 Guidance concerning the initial and subsequent measurement of a lease is clearly articulated through the Standard and is therefore briefly summarised below.

4.954 Greater detail is offered regarding the application of the mandated recognition exemption concerning lease length and for leases in which the underlying asset is of low value from paragraph 4.990.

Initial Measurement

4.955 Paragraphs 23 to 28 of IFRS 16 govern the initial measurement of the right of use asset and lease liability.

4.956 Per paragraphs 24 and 27 of the Standard the initial measurement of the asset and lease liability should factor in the following:

- For the right of use asset; the lease liability, lease prepayments or incentives, initial direct costs or an estimate of any dismantling, removal or restoring costs relating to either restoring the location of the asset or restoring the underlying asset itself, unless costs are incurred to produce inventories.
- For the lease liability: fixed and variable payments, amounts payable under residual value guarantees, exercising purchase options if reasonably certain to exercise, or termination payment if the lease term reflects the exercise of this.

- 4.957 Note the interpretation offered in paragraph 4.242 where lessees cannot readily determine the implicit interest rate in the lease, lessees should employ the discount rate promulgated in the PES and repeated in Chapter 4 annex 7 of the GAM. This is to ensure that the lease liability is measured at the present value of lease payments not paid at that date.
- 4.958 Irrecoverable VAT should not be included in the lease liability and therefore is not part of the value of the right of use asset that is derived in part from the lease liability.
- 4.959 Therefore irrecoverable VAT arising from a leasing arrangement should be expensed in the period that it is due per IFRIC 21 rather than form part of the lease liability recognised.
- 4.960 It is important to note that this treatment is not aligned to the approach taken for purchased non-current assets. A specific statement as to the treatment of irrecoverable VAT for leasing arrangements is given in Chapter 5 Annex 1 in the example accounting policy note.

'Fair Value Cap' in IAS 17

- 4.961 Per paragraph 20 of IAS 17 a finance lease was recognised on commencement of a lease, at an amount equal to the fair value of the leased property or if lower the present value of the minimum lease payments. This is expressed as the 'fair value cap'.
- 4.962 Per the initial measurement of a right of use asset, such a cap no longer exists.
- 4.963 This may mean new arrangements that would have been seen as finance leases under IAS 17 returning a different measurement on commencement under IFRS 16, which may have budgeting implications per Chapter 2 of the GAM.

Non-lease components

- 4.964 Entities are required to separate consideration for non-lease components included in the lease contract.
- 4.965 Examples of common non-lease components may include; maintenance provided by the lessor throughout the contract, operating personnel to operate the vehicle for the lessee, common-area maintenance in the building which is subject to a lease agreement etc.
- 4.966 IFRS 16 provides the lessee with an option to combine lease and associated service components and account for them as a single lease.

- 4.967 A lessee can elect to employ this expedient per class of underlying asset.
- 4.968 If a lessee separates lease and non-lease components, it should capitalise only amounts related to the lease components.
- 4.969 Lessors shall allocate the consideration in the contract applying paragraphs 73-90 of IFRS 15.

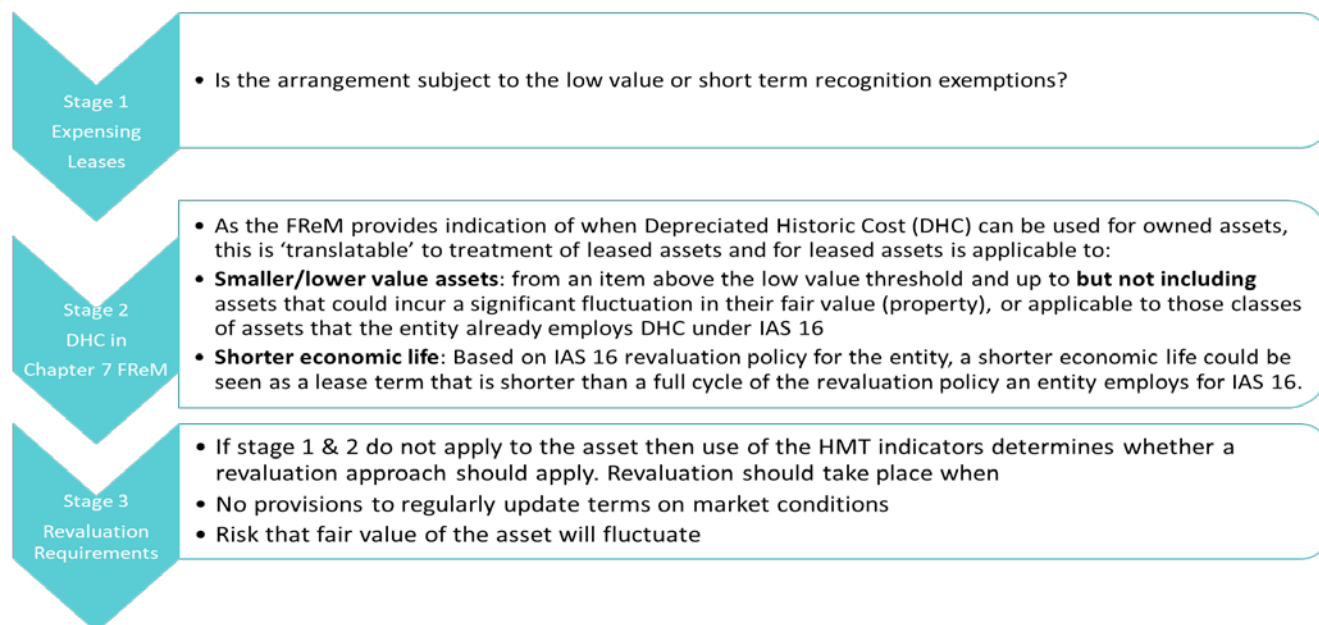
Subsequent Measurement

Revaluation approach

- 4.970 The subsequent measurement of the right of use asset shall be consistent with the principles for subsequent measurement of property, plant and equipment set out in IAS 16 as adapted by the FReM.
- 4.971 Accordingly, the right of use assets should be measured at either fair value or current value in existing use.
- 4.972 Preparers should note that employment of a revaluation approach for IFRS 16, consistent with the FReM application of revaluation under IAS 16, does not preclude use of the cost model for IFRS 16.
- 4.973 The HM Treasury application guidance identifies that the cost model can function as an appropriate proxy to the current value in use or fair value as;
- lease arrangements will often contain provisions to update rental payments in light of market conditions; and
 - cost is a suitable proxy under the FReM application of IAS 16 for owned assets with shorter economic lives and or lower values and this will equally apply to leased assets.
- 4.974 The guidance also identifies that a cost model will not be an appropriate proxy when;
- a longer-term lease has no terms that require lease payments to be updated for market conditions or there is a significant period between those updates; and
 - fair value or current value in use could fluctuate significantly due to changes in market prices and conditions.
- 4.975 Therefore, before requiring a valuer to calculate the full replacement cost of the right of use asset for the remaining term of the arrangement, per the HM Treasury

application guidance paragraphs 3.17 to 3.19, entities should complete the following assessment:

Figure 1: Steps to revaluation approach



- 4.976 The HM Treasury guidance does not provide absolute criteria as to what constitutes a significant period of time between rent reviews.
- 4.977 An example of a scenario requiring formal revaluation is provided in which a 30 year property lease with a rent review after year 15 and the market for the property is both active and volatile.
- 4.978 As such, preparers should use judgement to determine when rent reviews are appropriately sequenced throughout the life of a leasing arrangement.
- 4.979 Figure 1 identifies that entities may wish to look to their revaluation policy for plant, property and equipment when judging what is appropriate.
- 4.980 To ensure consistency of subsequent measurement for both leased and owned assets, preparers may consider that rent reviews sequenced throughout the life of a leasing arrangement, in alignment to the cycle of formal revaluations undertaken for owned assets, constitutes sufficiently regular updates for market conditions.
- 4.981 As identified in the HM Treasury Application guidance, paragraph 3.19, a cost model approach is considered an appropriate proxy where there is not a material difference between valuations produced via cost or revaluation approaches.
- 4.982 As such there may be instances in which cost cannot be considered a suitable proxy for current value in existing use or fair value.

- 4.983 Entities must use judgement to determine whether cost would be an appropriate proxy once the term, value, regularity of rent reviews and market volatility has been considered.
- 4.984 An example of a right of use asset not appropriate to hold at cost would be a lease offered at below market value. This assessment should be performed on an asset by asset basis.
- 4.985 Any movement in the value of the right of use asset due to applying principles consistent with the approach to IAS 16 as part of the subsequent measurement basis for a right of use asset, will not form part of the transition adjustments in applying IFRS 16 in the year of adoption, but will be accounted for as an in year movement of the right of use asset.

Transfer of Ownership of underlying asset

- 4.986 If ownership of the underlying asset is transferred to the lessee at the end of the term or if the costs of the asset reflect that the lessee will exercise a purchase option, depreciation should be incurred from the commencement date to the end of the useful life of the underlying asset.
- 4.987 Except in such instances as described above, depreciation should be incurred at the shorter of the useful life or the end of the lease term.

Lease liability

- 4.988 Subsequent measurement of the lease liability should factor in increases and decreases in the carrying amount relating to interest incurred and lease payments made respectively, as well as any remeasurement made to reflect a re-assessment of or modification made to the lease.
- 4.989 Paragraphs 39 to 46 of the Standard govern reassessment of the lease liability.

Recognition Exemptions

Short-Term Leases

- 4.990 HM Treasury has mandated the employment of the recognition exemption offered in paragraph 5 (a) of the Standard in relation to short-term leases.
- 4.991 In such instances the lessee shall recognise lease payments as an expense on a straight line or other systematic basis.

- 4.992 A short-term lease is any lease that at the commencement date of the lease (when the lessor makes an underlying asset available for use), has a lease term of 12 months or less.
- 4.993 The exemption does not remove the requirement for the lessee to consider the lease term in line with paragraphs 18 to 21 and B34 to B41 of the Standard.
- 4.994 It is critical for the lessee to consider the substance of the arrangement to determine the lease term and therefore the appropriate application of the recognition exemption.
- 4.995 BC94 of IFRS 16 asserts that the rigour of the assessment expected to be applied to determine the lease term, reduces the risk of non-substantive break clauses being inserted into contracts, solely for accounting purposes.
- 4.996 Guidance on the lease term assessment has been provided in paragraphs 4.944 to 4.952 of this supplement.

Leases of low value underlying assets

- 4.997 DHSC group bodies must adopt a low value lease exemption threshold of £5,000 and exercise the recognition exemption for leases in which the underlying asset is determined to be of a low value.
- 4.998 The mandated value is consistent with the capitalisation threshold of non-current assets as provided in the Group Accounting Manual paragraph 4.201. However the threshold as applied to leased assets should exclude any irrecoverable VAT charges.
- 4.999 The assessment of whether the arrangement constitutes a lease for which the underlying asset is of low value, should be made on a lease by lease basis.
- 4.1000 An underlying asset can only be of low value if:
- The lessee can benefit from the use of the underlying asset on its own or with other resources readily available to the lessee and
 - The underlying asset is not highly dependent on or highly interrelated with, other assets.
- 4.1001 In instances in which a wider arrangement / right of use asset is the aggregate of individual leases for low value component assets (BC 102 offers the example of IT equipment), entities should not apply the recognition exemption.

4.1002 This ensures a consistency of approach between leased and owned assets in capitalising low value functionally interdependent assets per IAS 16 terminology and highly dependent or interrelated assets per IFRS 16 terminology.

4.1003 It is important to note that there are disclosure requirements based on the application of the recognition exemptions.

Intangible Assets

4.1004 As identified in paragraph 4.929 an option to apply IFRS 16 to the leasing of intangible assets not covered in paragraph 3 (e) is provided within the Standard.

4.1005 The Department is mandating that the option of applying IFRS 16 to relevant intangible assets such as software, is not to be exercised by entities within the DHSC Group. The example accounting policy note in Chapter 5 Annex 1 of the GAM will reflect this accordingly.

4.1006 Entities that have accounted for such intangibles under IAS 17 and IFRIC 4 should apply the transitioning provisions of IFRS 16, mandated per the FReM and GAM, in full for any ongoing arrangements. When a new arrangement is entered into, this would then be accounted for under IAS 38 rather than IFRS 16.

Lessor Accounting

4.1007 Lessor accounting is predominantly carried forward from IAS 17.

4.1008 The main changes relate to additional guidance around modification, specific treatment regarding sub leasing arrangements and enhanced disclosure requirements, which are covered below.

Lessor Classification of leases

4.1009 At inception a lessor must consider whether the arrangement substantially transfers all the risks and rewards incidental to ownership of an underlying asset.

4.1010 Accordingly, IFRS 16 predominantly maintains the accounting treatments in which;

- For finance leases, lessors shall derecognise the underlying asset subject to a finance lease from its Statement of Financial Position, recognising a receivable at an amount equal to the net investment in the lease, and,
- For operating leases, lessors recognise lease payments received as income on a straight line or other systematic basis.

Lease Modifications

- 4.1011 IFRS 16 provides additional guidance in respect of lessors regarding the treatment for modification of leases.
- 4.1012 Modification occurs when there is a change in the scope of a lease, or consideration for a lease that was not part of the original terms and conditions, such as adding or terminating the right to use one or more underlying assets or extending or shortening the contractual lease term.
- 4.1013 Paragraph 87 of the Standard details the approach an entity must take regarding modification of an operating lease.
- 4.1014 For a finance lease, the entity must judge whether a separate lease is established by the modification, or whether the modification would have established an operating lease at inception.
- 4.1015 If neither of these scenarios account for the modification that has taken place, the entity must apply the modification of contractual cashflow requirements as expressed in paragraphs 5.4.3 and 5.5.12 of IFRS 9.
- 4.1016 Paragraphs 79 and 80 of IFRS 16 details the approach to take for finance lease modifications.

Accounting for Subleases

- 4.1017 Under IFRS 16 an intermediate lessor must classify the sublease with reference to the head lease rather than with reference to the underlying asset. As such the sublease would be classified;
- as an operating lease if the head lease is expensed on a systematic basis per the short-term lease recognition exemption mandated to be applied by the FReM, or,
 - otherwise by reference to the right of use asset arising from the head lease rather than with reference to the underlying asset.
- 4.1018 It is anticipated that more subleasing arrangements will therefore be classified as finance leases. The IASB set out their reasoning behind this in BC232 to BC234 of IFRS 16. In short, they identify that:
- it is appropriate for the head lease and sublease to be accounted for separately as generally each contract is negotiated separately with different counterparties and thus obligations from the head lease aren't extinguished by the sublease;

- it is the right of use asset that the intermediate lessor controls rather than the underlying asset, which justifies the classification of the lease with reference to the right of use asset rather than the underlying asset;
- the intermediate lessors risk associated with the right of use asset can be converted into credit risk via a subleasing arrangement. Accounting per a finance lease and recognising a receivable for the net investment in the sub lease does reflect that risk;
- if the sublease covers the remaining term of the head lease the intermediate lessor no longer has the right to use the underlying asset and in such instances, it is appropriate to derecognise the right of use asset and recognise the net investment in a sublease; and
- the approach reflects a real economic difference as the intermediate lessor only has the right of use asset for a period of time and if sub-letting for all of the remaining term then it does effectively transfer the asset. This is a distinct economic reality compared to an operating lease in which a lessor will derive economic benefit once the lease term has ended.

Illustrative example

Example 3 - Sublease classifications

DHSC enters in to a five-year lease for the 2nd floor of a building with a supplier.

At the end of year one DHSC subleases the entire 2nd floor of the building to one of its group bodies, for the remaining four years of the head lease.

DHSC as the intermediate lessor classifies the sublease by reference to the right of use asset.

As the sublease substantially transfers the risks and rewards of ownership of the right of use asset to the group body it classifies the sublease as a finance lease.

DHSC derecognise the right of use asset relating to the head lease and recognises a receivable equal to the net investment in the sublease, recognising any difference as profit or loss . The lease liability pertaining to the head lease continues to be recognised in DHSC's Statement of Financial Position, with finance income on the sublease and interest expense being recognised on the head lease.

If the sublease was for one year instead of the remaining four years DHSC would have entered into an operating lease in which it would recognise lease income from the group

body on a straight line basis and continue to recognise the right of use asset and lease liability, coupled with the ongoing charges for depreciation and interest expense.

- 4.1019 On transition to IFRS 16 there are additional requirements for intermediate lessors which are detailed in paragraph 4.1036.
- 4.1020 Practitioners should therefore ensure they are familiar with the implications of this aspect of IFRS 16.
- 4.1021 The extent to which public sector entities sublease, both internally and externally to the DHSC group, it is expected that this may have a significant impact on entities.

Transition

- 4.1022 The FReM mandates a number of transition arrangements. It is therefore important for lessees and lessors to be aware of the treatments required.

Identifying a Lease

- 4.1023 The FReM mandates the application of the practical expedient outlined in paragraph C3 of the Standard in which IFRS 16 is applied to contracts that fell within the scope of IAS 17 and IFRIC 4 and not applied to those identified as not containing a lease under the previous standards.
- 4.1024 This applies to all arrangements except for peppercorn leases which on transition must be accounted for per the HM Treasury adaptation described in paragraph 4.243.
- 4.1025 As such only leases entered into, or modified after the date of initial application, require the revised assessment to be undertaken per paragraphs 9 to 11 and B9 to B31 of IFRS 16.
- 4.1026 Entities should be aware that the interpretation put forward by HM Treasury presumes that IAS 17 and IFRIC 4 had been appropriately applied to all arrangements and is therefore caveated to identify that any known misapplication should be corrected as a prior period error in accordance with IAS 8 before the application of IFRS 16.
- 4.1027 In applying the expedient offered in C3, entities need to apply the transition requirements outlined in C5 to C18 to those arrangements assessed as containing a lease.

Lessee Accounting

4.1028 The FReM mandates the application of C5 (b) in which the prior year comparatives are not restated, but entities shall recognise the cumulative effect of initially applying the Standard at the date of initial application, as an adjustment to taxpayers' equity (or other component of equity as appropriate).

4.1029 This is in line with the transition arrangements for IFRS 9 and 15.

4.1030 The 'cumulative catch up approach' coupled with FReM interpretations surrounding transition, require specific approaches to be taken for leases previously classified as operating leases. These are:

- Recognition of a lease liability measured at the present value of the remaining lease payments, discounted by the incremental borrowing rate.
 - Practitioners should note that use of an incremental borrowing rate is therefore mandated on transition, with no option to consider the interest rate implicit in existing operating leases
- The election to measure the right of use asset at an amount equal to the lease liability adjusted by prepaid or accrued amounts recognised in the statement of financial position immediately before application of IFRS 16, has been mandated via the FReM for transition.
 - Practitioners should note that as C8(b)(ii) does not specify an adjustment of the right of use asset value for dilapidations, no adjustment should be made for dilapidations as part of transition. Equally any movement in the right of use asset value to ensure consistency with the principles of IAS 16 as the basis of the subsequent measurement for right of use assets, is not an adjustment that will go through opening reserves but must be accounted for as an in year adjustment as appropriate.
- The need to apply IAS 36 to right of use assets at the date of initial application unless the entity uses the expedient offered to rely on its assessment under IAS 37 as to whether leases are onerous immediately before the date of initial application, as an alternative to performing an impairment review.
- A need to measure a right of use asset at fair value if it meets the definition of investment property under IAS 40.
- The election to not make any adjustment for leases for which the underlying asset is of low value is mandated by the FReM.

- The expedient to not apply the requirements in paragraph C8 and described in bullets one and two above is mandated by the FReM where the lease term is to end within 12 months of the initial date of application. Such arrangements are to be accounted for similarly to all short-term leases.
 - The option to employ hindsight in determining the lease term if the contract contains options to extend or terminate the lease is mandated by the FReM.
- 4.1031 Paragraphs C9 and C10 offer additional expedients and options that lessees should be familiar with.
- 4.1032 Regarding leases previously classed as finance leases, the carrying amounts of the right of use asset and lease liability should remain as the same as they were immediately before the date of initial application.
- 4.1033 Paragraph C12 of the Standard prescribes specific disclosure requirements based on employment of the cumulative catch up approach.
- 4.1034 Note that where expedients are employed, mandated by the FReM or selected to be applied by the entity, their employment is disclosed as per the example accounting policy note in Chapter 5 Annex 1.

Lessor Accounting

- 4.1035 In line with the carry forward of the lessor approach from IAS 17, there is no requirement for a lessor to make adjustments on transition to IFRS 16. However, a notable transition impact is felt for intermediate lessors.
- 4.1036 Under paragraph C15 all intermediate lessors are required to reassess subleases classified as operating leases under IAS 17 to determine whether they should continue to be classified as operating leases or whether they should be accounted for as finance leases.
- 4.1037 Entities should note that this reassessment is required despite the expedient in C3 being applied.
- 4.1038 The assessment is required to be performed at the date of initial application on the basis of the remaining contractual term and terms and conditions of the head lease and sublease at that date.
- 4.1039 Further detail is provided above as to the assessment of subleases under IFRS 16.

Sale and Leaseback Transactions

- 4.1040 On transition, whilst an entity is not to reassess sale and leaseback transactions entered into before the date of initial application, entities should note that if the transaction generated a sale and a finance lease, the lease should be accounted in the same way as any finance lease in existence at the initial date of application, by the seller.
- 4.1041 If generating an operating lease, the operating lease should be measured in the same way as any other operating leases at the initial date of application. The right of use asset in this instance must also be adjusted to recognise any deferred gains or losses in relation to below market terms recognised in the statement of financial position immediately before the initial date of application.

Disclosures

- 4.1042 IFRS 16 provides enhanced disclosure requirements based on the objective identified in paragraphs 51 and 89 of the Standard, to give a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of lessees and lessors.
- 4.1043 Entities are reminded that the materiality considerations offered in the Conceptual Framework and in IAS 1 are pervasive across all standards.
- 4.1044 Care must be taken to not reduce the understandability of financial statements.
- 4.1045 Summarisation schedules may take a particular approach to reporting requirements due to the aggregated materiality of certain disclosures for national bodies or DHSC Group.

Lessee Disclosures

- 4.1046 IFRS 16 requires disclosure through a single note or a separate section in the financial statement for where an entity is a lessee.
- 4.1047 When information is already presented elsewhere, a cross reference to this detail in the lessee's note is sufficient to avoid duplication.
- 4.1048 For each reporting period the lessee is required to provide quantitative disclosures listed below in a tabular format unless another format is more appropriate:
- depreciation charge by class of underlying asset;

- interest expense on lease liability;
- expense relating to short term leases that have a remaining term of less than 12 months.
- This may involve disclosing the amount of lease commitment if the portfolio of short-term future commitments is dissimilar to those reported in during the period;
- expense of low value assets that aren't accounted for as short-term leases. The application of the recognition exemption must also be disclosed;
- expense relating to variable lease payments not included in the measurement of a lease liability;
- income from subleasing right of use assets;
- total cash outflow for leases;
- additions to right of use assets;
- gains or losses from sale and leaseback transactions; and
- the carrying amount of right of use assets by underlying class at the end of the reporting period.

4.1049 Regarding the maturity of lease liabilities, a lessee shall disclose separately a maturity analysis through applying the applicable requirements of IFRS 7 (paragraphs 39 and B11).

4.1050 This must be separate to the maturity analyses of other financial liabilities.

4.1051 Further quantitative and qualitative information regarding the leasing activities of an entity may be required to meet the disclosure objective of enabling users to assess impacts of leases on financial performance and the financial statements per paragraph 59 of the Standard.

4.1052 Paragraphs B48 to B52 of IFRS 16 provide further detail as to the nature of the considerations that should be made to determine whether additional information is required.

4.1053 Considerations regarding the relevant and apparent nature of the context in which entities enter into lessee arrangements will determine as to whether additional information relating to variable lease payments, the exercising or otherwise of options, residual value guarantees and sale and leaseback transactions, is appropriate to be disclosed.

4.1054 BC 224 to 227 of IFRS 16 identifies deviations from industry practices and exposure to other risks arising from lessee arrangements, as examples where further disclosure may be required.

Lessor Disclosures

4.1055 A lessor is required to provide the following disclosure in a tabular format per IFRS 16:

- Selling profit or loss on finance leases
- Finance income on the net investment in finance leases
- Income relating to variable lease payments not included in the measurement of the net investment for finance leases
- Lease income on operating leases, but separately disclosing variable lease payments that don't depend on an index or rate.

4.1056 Regarding finance leases a lessor shall also provide a quantitative and qualitative explanation of significant changes in the carrying amount of the net investment in finance leases.

4.1057 A lessor is also required to disclose a maturity analysis of the lease payments receivable conveying the undiscounted payments to be received on an annual basis for each of the next 5 years with a total of the amounts for receivables due over 5 years.

4.1058 The lessor is required to reconcile this to the net investment in a lease, which is expected to identify unearned finance income and unguaranteed residual value.

4.1059 Regarding operating leases, for items of PPE the lessor shall apply the disclosure requirements of IAS 16.

4.1060 Accordingly, IAS 16 disclosure for PPE shall be provided separately for assets subject to operating leases and owned assets held and used by the lessor.

4.1061 Where appropriate lessors must make disclosures per the requirements of IAS 36, IAS 38, IAS 40 and IAS 41 for assets subject to operating leases.

4.1062 For finance leases, lessors must disclose a maturity analyses showing the undiscounted lease payments to be received on an annual basis for each of the next 5 years and then a total amount for all other payments beyond 5 years should be disclosed.

4.1063 Further to the quantitative disclosures and similar to the rationale behind lessee disclosures, a lessor shall disclose additional information as prescribed by paragraph 92 of IFRS 16, where it is judged that such additional information enables the entity to achieve the disclosure objective of the Standard.

Transition

4.1064 In employing the cumulative catch up approach per C5 (b) of IFRS 16, as well as disclosing the necessary detail per IAS 8 paragraph 28 on initial application of the Standard, in place of detail requested in 28 (f) of IAS 28, entities must disclose:

- the lessee's weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on initial application;
- an explanation of any difference between operating lease commitments disclosed at the end of the reporting period preceding initial application discounted using the incremental borrowing rate determined and lease liabilities recognised on initial application; and
- the practical expedients employed.

4.1065 There is no requirement in the Standard for entities to derive a notional accumulated depreciation figure, to disclose for ongoing operating leases transitioning to IFRS 16.

Lessee Presentation

Statement of Financial Position

4.1066 The Standard prescribes that right of use assets and lease liabilities are presented separately from other assets and liabilities.

4.1067 If there isn't separate presentation in the statement of financial position the lessee must include the right of use assets within the same line item as if they were owned and then disclose which line items in the statement of financial position contain right of use assets and lease liabilities.

4.1068 Summarisation schedules and accounts templates may take a specific approach to presentation.

4.1069 Where right of use assets meet the definition of investment property, these are exempt from the above requirement and are required to be disclosed as part of investment property.

Statement of Comprehensive Income / Statement of Comprehensive Net Expenditure

4.1070 It is noted that interest expense on the lease liability is a component of finance costs. Depreciation charge on a right of use asset must be separately presented from the interest expense.

Statement of Cash Flows

4.1071 The cash payments for the principal of the lease liability shall be classified within financing activities, with the interest element being classified per the requirements of IAS 7 for interest paid.

4.1072 Payments related to short-term leases, low value assets and variable lease payments not included in the measurement of the lease liability being included within operating activities.

Lessor's Presentation

4.1073 A lessor must present in its statement of financial position underlying assets subject to an operating lease according to the nature of the underlying asset.

Further Guidance

4.1074 HM Treasury has published its current version of the [IFRS 16 public sector application guidance](#).

4.1075 [HM Treasury has published IFRS 16 Leases Supplementary budgeting guidance](#) which outlines budgeting treatment for the new standard.

4.1076 NHS England and NHS Improvement has published [IFRS 16 Implementation Guidance](#) to inform the approach for NHS providers and NHS England Group entities.

4.1077 NHS England and NHS Improvement has published an [IFRS 16 frequently asked questions](#) document that is being updated on a rolling basis to cover key issues with IFRS 16 implementation as they arise. These are relevant to all DHSC Group bodies as well as specifically addressing issues in the NHS.

4.1078 The Department has liaised with and therefore endorses the consistency of the guidance to the GAM.

5. Form and content of the Financial Statements

Introduction

- 5.1 This chapter provides guidance on the mandatory elements of financial statements for DHSC group bodies, based on the requirements of the underlying financial reporting framework, group-wide accounting policies, and the requirement for consistent reporting to facilitate the consolidation of the group account.
- 5.2 Where required headings for financial statements and notes are specified, alternative phrasing with the same meaning is permissible (for instance, 'employee benefits' or 'staff costs').

Annual Accounts Format

Primary financial statements

- 5.3 The annual accounts must include a set of primary financial statements. The format of these statements must be followed precisely, as communicated by this manual and the relevant national bodies, and include all headings except where the value of both current and comparative prior year is nil.
- 5.4 DHSC group bodies must include the following primary statements:
- Statement of Comprehensive Net Expenditure (SoCNE) (NHS providers must instead include a Statement of Comprehensive Income (SoCI). DHSC ALBs may also include a SoCI where appropriate to their business.)
 - Statement of Financial Position (SoFP)
 - Statement of Changes in Taxpayers' Equity (SoCTE)
 - Statement of Cash Flows (SoCF).

Notes relevant to the financial statements

- 5.5 An entity has discretion over the presentation of the notes to the accounts. In applying discretion, the entity must be mindful of materiality, and of where this manual sets out specific disclosure requirements that must be followed.

- 5.6 Entities may merge or exclude headings specified in this manual where they are irrelevant or immaterial.
- 5.7 Although entities may apply discretion in presenting their disclosures, they must continue to ensure consistency between the accounts and the summarisation schedules.
- 5.8 For NHS providers, disclosures entitled 'note' in the summarisation schedules must be included in the accounts, but entities have discretion over their precise format, and they may be omitted if immaterial.

Comparative amounts

- 5.9 Unless otherwise relieved by the provisions of an individual IFRS Standard, IAS 1 requires the disclosure of comparative information for all primary statements and notes to the accounts.

Group accounts

- 5.10 The principles of IFRS 10 will be applied to all other entities in which the entity has an interest, including NHS charitable funds.
- 5.11 The primary statements and notes to the accounts must be presented with separate 'Group' and 'Parent Entity' columns.
- 5.12 An NHS trust or NHS foundation trust may title the parent entity column "Trust" if it wishes.
- 5.13 NHS providers may take advantage of the exemption afforded by the Companies Act 2006 to omit the SoCI for the provider parent if it wishes.
- 5.14 Where an NHS provider takes advantage of this exemption it must disclose that it has done so in a note to the accounts, together with the surplus/deficit of the parent trust and comply with the other requirements of [section 408 of the Companies Act 2006](#).
- 5.15 More widely, where the entity determines that the difference between the 'Group' and 'Parent Entity' numbers is immaterial for a particular note, the 'Parent Entity' version of that note may be omitted from the accounts.
- 5.16 The omission and the extent of the immaterial differences must be explained.

Example accounts format

- 5.17 Illustrative accounts formats are provided by the relevant national bodies to assist with the completion of the accounts.
- 5.18 These example formats show the format required for the primary statements and examples of how the notes to the financial statements must be presented.
- 5.19 Example accounts formats applicable to each area of the DHSC group are listed below.
- 5.20 These are illustrative and are not mandatory for use except where this manual indicates that format in the example accounts is required.
- 5.21 DHSC ALBs should refer to the [Agency Pink/NDPB Green illustrative account](#), published by HM Treasury.
- 5.22 The format for 2023-24 is already published alongside the FReM however, HMT may make updates to the format at any time up to December 2023.
- 5.23 NHS providers should refer to the example trust accounts template published by NHSE. Any concerns over the form and content of the annual accounts should be discussed with NHSE.
- 5.24 ICBs should refer to the model accounts template for ICBs issued by NHSE.

Accounting policies

- 5.25 The relevant standards are IAS 1, Presentation of Financial Statements paragraphs 117-124 and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.
- 5.26 DHSC group bodies must disclose their accounting policies in a note to the accounts. These must be consistent with any group-wide accounting policies specified in this manual.
- 5.27 Example accounting policies are provided in [Chapter 5 Annex 1: Example accounting policies](#).
- 5.28 There is no requirement to disclose policies that are irrelevant or immaterial to the entity in the accounting policies note.

Key sources of judgement and estimation uncertainty

- 5.29 Under IAS 1, Presentation of Financial Statements entities must disclose the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.
- 5.30 Entities must also disclose information about key sources of estimation uncertainty.
- 5.31 It will be for each entity to decide which uncertainties require disclosure in this way, but examples might include:
- actuarial assumptions in respect of post-employment benefits
 - assumptions underlying the likelihood and outcome of material provisions
 - assumptions regarding the valuation of properties
 - future changes in accounting policy.
- 5.32 The determination of the carrying values of some assets and liabilities may require estimation of the effects of future uncertain events.
- 5.33 Examples include the estimation of the recoverable amount of plant, property and equipment in the absence of recently observed market prices, or the assumptions underlying the estimation of material provisions.
- 5.34 Where a new IFRS Standard or Interpretation has been issued, but has not yet been implemented, IAS 8 requires disclosure in the accounts of this fact and the known or reasonably estimated impact that its application will have in the period of initial application.
- 5.35 "Issued" should be interpreted as having been issued by the IASB or IFRS IC, even if the UK has not yet adopted the Standard, together with published changes to future versions of the Treasury FReM.

Statement of Comprehensive Income (SoCI) / Comprehensive Net Expenditure (SoCNE)

- 5.36 IAS 1, Presentation of Financial Statements requires the preparation of a Statement of Comprehensive Income (SoCI).

- 5.37 In the public sector context, this is appropriate for entities that operate on a cost recovery basis, including NHS providers.
- 5.38 Entities that receive funding to incur expenditure on behalf of the government, including NHS commissioners, will prepare a Statement of Comprehensive Net Expenditure (SoCNE) which follows the principles of IAS 1 as adopted by HM Treasury.
- 5.39 For organisations preparing a SoCI the option in IAS 1 to present this information as two separate statements has been withdrawn.
- 5.40 This section consistently uses SoCNE to refer to either statement format, except in contexts that deal specifically with NHS providers, in which case SoCI is used.
- 5.41 The Standard does not prescribe the structure of the SoCNE, but simply sets out the items which must be disclosed on the face of the statement.
- 5.42 In addition to any items required by IAS 1, DHSC group bodies must present the following items of income and expenditure on the face of the SoCNE:
- Revenue from patient care activities (NHS providers)
 - Other operating revenue
 - Employee benefits (alternatively, this and the following item may be combined as 'Operating expenses' where these are not easily separable)
 - Other operating expenses
 - Net operating surplus/deficit
 - Finance income
 - Finance costs
 - Gain/losses on transfers by absorption
- 5.43 Other comprehensive income must be analysed between:
- amounts that will not be reclassified subsequently to income and expenditure, including (where relevant):
 - Gain on revaluations (may be analysed by property, plant and equipment, and intangible assets, where material)

- Impairments and reversals taken to revaluation reserve
- Remeasurements of the defined pension liability/asset
- Net gain/loss on equity instruments designated at fair value through other comprehensive income
- Net gain/loss attributable to changes in credit risk on financial liabilities designated at fair value through profit or loss
- amounts that will subsequently be reclassified to income and expenditure, including (where relevant):
 - Net gain/loss on financial assets measured at fair value through other comprehensive income
 - Reclassification adjustment on financial assets measured at fair value through other comprehensive income.

PDC dividend expense (NHS providers)

5.44 NHS providers must disclose PDC dividend expense in respect of the financial year on the face of the SoCI.

Notes to SoCI / SoCNE

Operating segments

5.45 The relevant standard is IFRS 8, Operating Segments. An operating segment is a component of an entity:

- that engages in activities from which it may receive income and incur expenses (including income and expenses generated internally)
- whose operating results are regularly reviewed by the entity's "chief operating decision maker" (CODM) to make decisions about resource allocation to the segment and assess its performance, and
- for which discrete financial information is available.

5.46 A separate segment must be reported only if it exceeds one of the quantitative thresholds: 10% of revenue, profit/loss or assets; unless this would result in less than 75% of the body's revenue being included in reportable segments, in which

case additional reportable segments are identified such that the 75% threshold is reached or exceeded.

- 5.47 An “all other segments” category must be included, as part of the reconciliation to total revenue, profit or loss, and assets.
- 5.48 Segmental transactions must be disclosed on the same basis as that used for internal reporting to the CODM.
- 5.49 This means that if segments are not recognised and measured on an IFRS basis for internal reporting, then they do not need to be restated to IFRS prior to disclosure.
- 5.50 Reconciliations must be provided between the aggregate amounts disclosed for reportable segments and the totals included in the financial statements.
- 5.51 Key adjustments may include the removal of internal income and expenses, any necessary restatement to an IFRS basis and the inclusion of amounts in respect of the activities of operating segments which did not meet the criteria for a reportable segment.
- 5.52 DHSC group bodies may not be allocating income to individual activities for the purpose of internal reporting, choosing instead to report expenditure by activity and reporting income only for the entity as a whole.
- 5.53 Where this occurs, and income is not allocated consistently to individual activities when reporting to the CODM, the entity should determine which segments are reportable by reference to the operating expenses of the segment and the total operating expenses of the entity.

Employee benefits expense

- 5.54 This note is a requirement of the [Companies Act 2006, section 411](#). IAS 19, Employee Benefits, is relevant.
- 5.55 As described in the sections on income and operating expenditure, different local requirements may necessitate completion of the summarisation schedules in a way which is most appropriate in that sector.
- 5.56 Employee benefits must be shown in the accounts note in a single column for all categories of staff.
- 5.57 Total figures must match those shown for employee benefits in the staff costs disclosure in the Staff Report part of the annual report.

5.58 The note must include at least the following rows:

- Salaries and wages
- Social security costs
- NHS Pension costs
- Other pensions costs
- Less: recoveries in respect of outward secondments (where treated net).

5.59 The figures must exclude non-executive directors/ lay Governing Body Members but include executive board members/Governing Body Members and staff recharged by other DHSC group bodies.

5.60 IAS 19 sets out the requirements for accounting for short-term employee benefits, post-employment benefits and termination benefits. The 'employee benefits expense' includes all three of these costs.

Ill-health retirements

5.61 NHS bodies are required to disclose the number of early retirements agreed on the grounds of ill-health during the year, together with the estimated resulting additional pension liabilities borne by the relevant pension scheme.

5.62 DHSC or the relevant national body will provide these figures when they become available from NHS BSA – NHS Pensions.

Directors' remuneration and other benefits (NHS foundation trusts)

5.63 The requirements under section 412 of the Companies Act 2006 to disclose information on directors' remuneration are considered to be satisfied by the disclosures made in the notes to the accounts and in the Remuneration Report.

5.64 The requirements for disclosing directors' other benefits, where relevant, are set out in section 413 of the Companies Act 2006, and comprise:

- Advances and credits granted by the NHS foundation trust (or any subsidiary undertaking) to any of directors of the trust:
 - the amount of the advance
 - an indication of the interest rate

- the main conditions, and
 - any amounts repaid.
 - Guarantees of any kind entered into on behalf of the directors of the NHS foundation trust by the trust (or any subsidiary undertaking):
 - the main terms of the guarantee
 - the amount of the maximum liability that maybe incurred by guarantor entity, and
 - any amount paid and any liability incurred by the guarantor for the purpose of fulfilling the guarantee.
 - The aggregate of:
 - all advances
 - all repayments of advances
 - the maximum liabilities under guarantees, and
 - amounts paid under such guarantees.
- 5.65 These disclosures apply to any advance or guarantee existing at any time during the financial year, regardless of when it was entered into, whether the individual concerned was a director at the time it was entered into and, if by a subsidiary, regardless of whether the entity was a subsidiary at the time it was entered into.

Pension costs

- 5.66 The relevant standard is IAS 19, Employee Benefits. Entities with employees that are members of the NHS Pensions Scheme, the Principal Civil Service Pension Scheme or the Civil Servant and Other Pension Scheme unfunded, defined benefit pension schemes must apply the adaptation to IAS 19 requiring the schemes to be treated as defined contribution schemes.
- 5.67 Disclosure note requirements are provided each year by NHS BSA (NHS Pensions Scheme), and by Cabinet Office (Civil Service Pensions). NHS Pensions Scheme requirements will be published by the relevant national bodies.
- 5.68 Requirements for entities with employees in the Principal Civil Service Pension Scheme or Civil Servant and Other Pension Scheme are included in the relevant illustrative accounts published by HM Treasury, with changes being published as [Employers Pensions Notices \(EPN\)](#).

- 5.69 Entities with employees who are members of other pension schemes (for example, Local Government Pension Schemes), should refer to FReM paragraph 12.1.1 in the first instance to determine whether the scheme is a public sector pension scheme under which the IAS 19 adaptation applies.
- 5.70 Otherwise, they will need to assess how the scheme operates to determine the correct accounting and disclosure requirements

Analysis of operating expenses

- 5.71 The relevant standard is IAS 1, Presentation of Financial Statements, paragraph 99. DHSC group bodies will have differing disclosure requirements for expenditure, based on materiality and sector specific transactions – see paragraphs 5.5 to 5.24.
- 5.72 IAS 1 requires an analysis of operating expenses to be disclosed on either the face of the SoCNE or in a note to the accounts. For consistency across the DHSC group, this analysis must be presented in a note to the accounts.
- 5.73 This must reflect the nature of the expenditure, for example transport costs, supplies and services.
- 5.74 If management considers that an analysis by function is more relevant, it may include such disclosure in an additional note to the accounts. The note must include at least the following rows (where relevant):
- Purchase of healthcare from NHS and DHSC bodies (commissioners should analyse by sector)
 - Purchase of healthcare from non-NHS/DHSC bodies
 - Purchase of social care
 - Rentals under operating leases
 - Supplies and services – clinical
 - Supplies and services – general
 - Audit services (see paragraph 5.81)
 - Other auditor’s remuneration (see paragraph 5.81)
 - Internal audit expenditure (see paragraph 5.92)

- Consultancy services (see [Chapter 5 Annex 2: Consultancy definition](#))
- Chair and non-executive directors' costs
- Establishment (see paragraph 5.76)
- Transport
- Premises (see paragraph 5.77)
- Legal fees
- Clinical negligence
- Research and development
- Education, training and conferences
- Grants to local authorities (not applicable to NHS providers)
- Grants to other bodies (not applicable to NHS providers)
- Capital grants (not applicable to NHS providers)
- Drug costs (NHS providers only)

5.75 Additionally, impairments and reversals taken to the SoCI/SoCNE must be disclosed within operating expenses.

5.76 Establishment expenditure relates to general expenses such as telephone costs, stationery, printing and staff expenses.

5.77 Premises expenditure is expenditure, other than rent, incurred in relation to buildings. Examples could include: building repairs and maintenance, utilities, facilities management and catering.

5.78 Additionally, ICBs must analyse other commissioning expenditure against the headings set out by NHSE in example accounts.

5.79 Consideration should also be given to the analysis required for the summarisation schedules.

5.80 In some cases, it will be necessary to report non-material items in the summarisation schedules as they may be material in aggregate upon sector/group consolidation.

Audit fees

- 5.81 This is the total of fees paid or payable to the external auditor for the financial year in question and must be analysed between statutory audit services and other services in accordance with SI 2008 No.489, [The Companies \(Disclosure of Auditor Remuneration and Liability Limitation Agreements\) Regulations 2008](#). These regulations were amended by SI 2011 No.2198, [The Companies \(Disclosure of Auditor Remuneration and Liability Limitation Agreements\) \(Amendment\) Regulations 2011](#).
- 5.82 Further information is provided in the [Disclosure of auditor remuneration technical release](#) issued by the ICAEW.
- 5.83 Audit fees must always be disclosed irrespective of materiality.
- 5.84 Non-audit fees payable to the external auditor (other auditors' remuneration) are analysed across the following headings:
- (a) the auditing of accounts of any associate of the entity
 - (b) audit-related assurance services
 - (c) taxation compliance services
 - (d) all taxation advisory service not falling within item c) above
 - (e) internal audit services
 - (f) all assurance services not falling within items a) to e)
 - (g) corporate finance transaction services not falling within items a) to f) above, and
 - (h) all other non-audit services not falling within items b) to g) above.
- 5.85 Within the non-audit service headings above, there are various services that are prohibited to be provided by the local auditor.
- 5.86 Further guidance on prohibited non-audit services is provided in the Revised Ethical Standard 2019 issued by the Financial Reporting Council (FRC).
- 5.87 The implications for the auditors of local NHS bodies are set out in the [Auditor Guidance Note 1 \(AGN 01\)](#), available on the NAO website.

- 5.88 Where local auditors undertake additional statutory activities under the Code of Practice that are not related to the audit of the financial statements (for example, value for money work), these costs must be classified as “audit services” rather than “other auditor remuneration”.
- 5.89 The disclosure of costs related to non-audit services must set out the basis for such work and its nature and extent.
- 5.90 Where the auditor provides assurance on an NHS provider’s quality account or quality report this work is not performed under the Code of Audit Practice and the fees must be disclosed separately as ‘other services: audit-related assurance services’.

Auditor liability limitation agreements

- 5.91 In accordance with SI 2008 no.489, The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008, where a DHSC group body’s contract with its auditors provides for a limitation of the auditor’s liability, the principal terms of this limitation must be disclosed in a note to the accounts.

Internal audit expenditure

- 5.92 DHSC group bodies must disclose non-staff related internal audit expenditure, for example where services are provided by a third party, including local counter fraud services.
- 5.93 NHS providers must additionally disclose staff related internal audit expenditure, based on the analysis in summarisation schedules.

Analysis of income and expenditure: programme and administration

- 5.94 There is no requirement for separate disclosure of administration and programme income and expenditure in the financial statements, and DHSC group bodies should not include this analysis in their accounts.
- 5.95 DHSC is required to report administration outturn as part of the Parliamentary accountability report.
- 5.96 There is therefore a requirement to collect separate programme and (where relevant) administration income and expenditure details within the summarisation schedules and agreement of balances exercises.
- 5.97 DHSC group bodies must ensure these figures are consistent with the aggregate figures in their published accounts.

5.98 For some entities, such as NHS providers, income and expenditure are deemed to be wholly programme, and no further analysis is required from those bodies.

Profit or loss on disposal of property, plant and equipment (NHS foundation trusts)

5.99 Where land and buildings assets used in the provision of commissioner requested services have been disposed of during the year, a narrative disclosure is required.

5.100 This must include the net book value of the asset, the amount of any sale proceeds or other consideration receivable, and an explanation of the means by which the NHS foundation trust will continue to meet its obligations to provide commissioner requested services.

5.101 This might include details of replacement assets, use of under-utilised existing assets or leasing arrangements.

Income

5.102 The main relevant standard is IFRS 15, Revenue from Contracts with Customers. DHSC group bodies will have differing disclosure requirements for income, based on materiality and sector specific transactions – see paragraphs 5.5 to 5.24

5.103 DHSC group bodies must disclose income in a note to the accounts. For NHS providers, this must include analyses of revenue from patient care activities (see paragraphs 5.108 and 5.112).

5.104 An analysis of other operating income must also be disclosed. For NHS providers, this must be clearly distinguished from patient care income.

5.105 This analysis must include at least the following rows (where relevant):

- Prescription fees and charges (NHS England and ICBs)
- Dental fees and charges (NHS England)
- Education and training
- Research and development
- Receipt of grants and donations for capital expenditure
- Charitable and other contributions to expenditure
- Non-patient care services to other bodies

- Rental revenue from operating leases
- Rental revenue from finance leases
- Income in respect of staff costs (where treated gross)
- Support from DHSC for mergers

5.106 Where 'other income' is material, additional disclosure must be made in the accounts as to its source.

5.107 DHSC group bodies are reminded of the default gross accounting position, as described in paragraphs 4.29 to 4.36.

Income from patient care activities (NHS providers)

5.108 NHS provider income must be classified as income from patient care activities when it is earned under contracts with NHS bodies and others for the provision of patient-related healthcare services.

5.109 This analysis must include at least the following rows (where relevant):

- Patient care income from DHSC/NHS bodies (analysed by sector)
- Patient care income from local authorities
- Patient care income from private patients
- Patient care income from overseas patients
- Other non-NHS patient care income
- Injury costs recovery

5.110 'Patient care income from non-NHS bodies' records all income for the provision of patient care services from sources other than those separately analysed, including income from Scottish, Welsh and Irish administrations.

5.111 Income arising from the activities of subsidiaries consolidated into the accounts of the NHS provider must be classified on the same basis, regardless of how it is classified in the accounts of the subsidiary.

5.112 NHS providers must also disclose their patient care income by nature of service in a separate note. NHSE will provide an example format for this in the template accounts for NHS trusts and foundation trusts.

Income from activities arising from commissioner requested services (NHS foundation trusts)

- 5.113 As part of the income disclosures, NHS foundation trusts must also disclose the level of income from activities that has arisen from commissioner requested and non-commissioner requested services (as set out in the NHS foundation trust's Provider Licence and available on NHSE's NHS foundation trust directory).
- 5.114 This analysis must add up to the total income from activities set out on the face of the SoCI. Where an NHS foundation trust has been placed in Trust Special Administration, substitute 'commissioner requested' with 'location specific'.

Overseas visitors

- 5.115 NHS providers must disclose the following in the notes to the accounts, relating to treatment of overseas visitors:
- income from overseas visitors (where the patient is charged directly by the NHS provider)
 - cash payments received in year (relating to invoices raised in the current and prior years)
 - amounts added to the provision for impairment of receivables (relating to invoices raised in the current and prior years), and
 - amounts written off in-year (relating to invoices raised in the current and prior years).
- 5.116 The NHS provider has discretion where these numbers are disclosed within the notes to the accounts.
- 5.117 Due to ministerial interest in this area, this disclosure (all four numbers) must be included in NHS providers' accounts where income from overseas visitors (where the patient is charged directly by the NHS provider) exceeds £100,000 in the year.
- 5.118 NHS providers with overseas visitors' income below £100,000 are encouraged to include the disclosure in their accounts, but this is not mandatory.
- 5.119 Further guidance on identifying when income must be recorded as being from overseas visitors can be found in the DHSC issued [Guidance on implementing the overseas charging regulations 2015](#).

Fees and charges (Income generation activities)

- 5.120 There is no relevant accounting standard: this disclosure is a Treasury requirement. [The FReM and accompanying illustrative statements](#) provide examples as to how the disclosure can be constructed.
- 5.121 In addition to reporting operating segments under IFRS, Treasury's FReM requires bodies to provide additional disclosures for fees and charges raised under legislation, for instance dental and prescription charges, where the full cost exceeds £1 million or the service is otherwise material in relation to the accounts.
- 5.122 This includes NHS income generation activities. Where the additional disclosures are shown separately in the "Operating Segments" note, they do not need to be repeated.
- 5.123 Where an entity has reported on fees and charges in its annual report (see Parliamentary accountability and audit report), there is no requirement to duplicate the fees and charges disclosure as a separate note to the accounts. (For NHS foundation trusts, this disclosure can be included in either the accounts or the annual report, as described in the FT ARM 2023-24.)

Discontinued operations

- 5.124 DHSC group bodies must review their activities against IFRS 5 to determine whether any activities meet the definition of a discontinued operation, and if so, to reclassify it as such and measure and disclose it accordance with that Standard.
- 5.125 Following the requirements of the FReM, activities that are transferred to other bodies within the boundary of Whole of Government Accounts are 'machinery of government changes'. They must therefore be treated as continuing operations, and accordingly must be removed from the accounts in the financial year of disposal.
- 5.126 Discontinued operations can only occur therefore, in respect of activities that genuinely cease without transferring to another entity, or which transfer to an entity outside the boundary of WGA, such as the private or voluntary sectors.

Statement of Financial Position (SoFP)

- 5.127 IAS 1, Presentation of Financial Statements requires the preparation of a Statement of Financial Position and sets out the line items to be included.

5.128 Assets and liabilities must be analysed as “current” and “non-current” on the face of the SoFP.

Taxpayers’ Equity and Other Reserves

5.129 The net total of assets and liabilities must equal the total taxpayers’ equity (including charitable funds where relevant) used to finance the entity. The SoFP, and additionally the Statement of Changes in Taxpayers’ Equity (see paragraph 5.187), must identify the reserves used to finance the entity’s assets and liabilities.

5.130 The SoFP/SoCTE may include any of the following reserves:

- General fund/reserve (not NHS providers)
- Income and Expenditure reserve (NHS providers)
- PDC reserve (NHS providers only)
- Revaluation reserve
- Financial assets at fair value through other comprehensive income reserve
- Merger reserve (in rare cases for legacy transactions)
- Other reserves (including accumulated balances of remaining classes of other comprehensive income – see paragraph 5.43)
- Charitable fund reserves (where charitable funds are consolidated).

5.131 Additionally, IFRS 10 requires non-controlling interests in subsidiaries to be shown within taxpayers’ equity, as a separate item.

Notes to SoFP

Property, plant and equipment

5.132 The relevant standard is IAS 16, Property, Plant and Equipment.

Categorisation

5.133 As a minimum, DHSC group bodies must establish and report on the following classes of PPE:

- land

- buildings (excluding dwellings)
- dwellings
- transport equipment
- plant and machinery
- information technology
- furniture and fittings
- stockpiled goods (DHSC and UKHSA only), and
- payments on account and assets under construction.

Depreciation

- 5.134 Depreciation charged on asset categories must be disclosed separately from the cost/valuation of the asset. The opening balance as at 1 April XX must equal the total depreciation carried forward from the previous year.
- 5.135 Movements in depreciation other than that charged due to the reduction in the useful life of the asset, such as through impairment or revaluation, reclassifications, etc., must be separately disclosed.
- 5.136 The example accounts formats provide details of relevant lines.

Additional Disclosure requirements

- 5.137 It is not necessary to disclose the historical cost carrying amounts required by paragraph 77(e) of IAS 16.
- 5.138 Separate disclosure is required, in the year an asset is acquired, of the current value in existing use of assets funded by government grant, donation or by lottery funding.
- 5.139 Where the funder provides cash, rather than the physical assets, any difference between the cash provided and the value of the assets acquired must also be disclosed.
- 5.140 Details of any restrictions or conditions imposed by the donor on the use of a donated asset must be disclosed in a note to the financial statements.

Useful Lives of Non-Current Assets

5.141 The range of the economic lives of non-current assets used by the entity must be disclosed below the non-current assets' notes, together with other revaluation details.

Intangible assets

5.142 The relevant standard is IAS 38, Intangible Assets. Presentation of intangible assets will be similar to that for property, plant and equipment.

Categorisation

5.143 As a minimum, DHSC group bodies must establish and report on the following classes of intangible assets:

- software licences
- IT – in-house and 3rd party software
- development expenditure
- licences, trademarks and artistic originals
- patents
- goodwill
- websites.

Financial instruments

5.144 The relevant standard is IFRS 7, Financial Instruments: Disclosures. Where a DHSC group body is exposed to material financial instrument risk, it must make the relevant IFRS 7 disclosures.

5.145 Particular emphasis must be placed on considering appropriate disclosure requirements relating to significant credit risk from receivables.

5.146 The disclosures in this note apply to all the entity's financial instruments except:

- interests in subsidiaries, associates and joint ventures where they are consolidated, partially consolidated or equity-accounted, and
- employers' rights and obligations under employee benefit plans.

- 5.147 They therefore apply to financial instruments whose accounting is unchanged by the financial instrument standards, such as current payables and receivables, and financial instruments that are measured under other standards, such as provisions arising under contracts, finance leases and PFI liabilities.
- 5.148 [See Chapter 4 Annex 6: Financial Instruments](#) for the full description of financial instruments.

Inventories

- 5.149 The relevant standard is IAS 2, Inventories. As a minimum, DHSC group bodies must establish and report on the following classes of intangible assets.
- work in progress
 - drugs
 - consumables.
- 5.150 Work-in-progress is the value of items in the process of manufacture. It does not include partially completed episodes of healthcare.

Contract and other receivables

- 5.151 The relevant standards are IAS 1, Presentation of Financial Statements, paragraphs 77 and 78(b) and IFRS 7, Financial Instruments Disclosures, paragraph 36.
- 5.152 Where relevant, DHSC group bodies must separately disclose amounts receivable from other NHS and DHSC group bodies.
- 5.153 This must include amounts receivable from any special health authorities and DHSC executive agencies outside the DHSC accounting boundary (currently NHS Blood and Transplant and Medicines & Healthcare Products Regulatory Agency), and must exclude receivables from Scottish, Welsh and Irish health bodies.

Allowance for expected credit losses

- 5.154 The relevant standard is IFRS 7, Financial Instruments: Disclosures, paragraphs 35H to 35L. DHSC group bodies must provide a reconciliation of movements in the allowance for expected credit losses.

Cash and cash equivalents

5.155 The relevant standard is IAS 7, Statement of Cash Flows. DHSC group bodies must analyse cash and cash equivalents into at least the following headings:

- Government Banking Service
- commercial banks and cash in hand
- deposits with National Loans Fund
- other short-term investments.

5.156 The definition of cash and cash equivalents may be different between the SoFP and the SoCF due to the treatment of bank overdrafts.

5.157 Where overdrafts are used as part of day-to-day cash management, then they may be included within cash and cash equivalents in the Statement of Cash Flows.

5.158 However, for the SoFP, bank overdrafts are included under financial liabilities. This note reconciles the two.

5.159 Bank balances held with the Government Banking Service must not be treated as a bank balance with a commercial bank despite the contracts being in place with commercial banks.

5.160 Only balances held in accounts outside this contracted arrangement should be considered as being held in a commercial bank account.

5.161 Cash equivalents include liquid investments as defined under IAS 7. DHSC group bodies must review the nature of such deposits, including items held with the National Loan Fund at the year end, and the original term to maturity of the investments to ensure the deposits are correctly allocated between cash equivalents and other short-term loans (current assets).

Trade and other payables

5.162 The relevant standard is IAS 1, Presentation of Financial Statements paragraph 77. IAS 7, Statement of Cash Flows paragraph 44A to 44E are also relevant

5.163 Where relevant, DHSC group bodies must separately disclose amounts payable to other NHS and DHSC group bodies.

- 5.164 For this purpose, this must include amounts payable to any special health authorities and DHSC executive agencies outside the DHSC accounting boundary (currently NHS Blood and Transplant and Medicines & Healthcare Products Regulatory Agency), and must exclude payables to Scottish, Welsh and Irish health bodies.
- 5.165 In accordance with amendments flowing from IASB's disclosure initiative, an entity is to provide a reconciliation between opening and closing balances in the statement of financial position for liabilities arising from financing activities, that is to include both cash and non-cash changes.
- 5.166 Whilst a specific layout is not mandated by the Standard, though an example of how this may be completed is detailed in IAS 7 IE section C of the Standard, the [illustrative statements published alongside the FReM](#) provide examples of suggested layouts with which to complete this reconciliation.
- 5.167 Entities should refer to the relevant accounts template and consolidation schedule which will provide the data requirements underpinning this disclosure.

Provisions

- 5.168 The relevant standard is IAS 37, Provisions, Contingent Liabilities and Contingent Assets. IAS 19, Employee benefits is also relevant. For presentation purposes in the SoFP, all provisions need to be separated into current and non-current amounts.
- 5.169 DHSC group bodies must analyse provisions into at least the following headings (where relevant):
- clinical negligence (NHS Resolution only – see paragraph 5.172)
 - early departure costs (see paragraph 5.174)
 - NHS Continuing Healthcare.
- 5.170 The expected timing of cash flows for each provision must be analysed by the following periods:
- not later than one year
 - later than one year and not later than five years
 - later than five years.

- 5.171 Where the time value of money is material, future cashflows are discounted. Treasury issues guidance on appropriate discount rates and this is summarised in [Chapter 4 Annex 7 - Treasury Discount Rates](#)

Clinical negligence claims

- 5.172 Where NHS Resolution has assumed responsibility for settlement of claims, the relevant provisions will be brought to account by NHS Resolution.
- 5.173 NHS provider bodies must, however, disclose within the provisions note the value of those liabilities recognised by NHS Resolution on their behalf. NHS Resolution will provide the figure for the disclosure each year.

Early departure costs

- 5.174 NHS employers are responsible for meeting additional costs arising from early departure. A provision must be established in relation to these costs as soon as the conditions set out in IAS 19 are met.
- 5.175 The amounts due must be discounted to their present value using the pensions discount rate.
- 5.176 For NHS Pensions Scheme early retirements, all cash outflows will be discounted using a single Treasury pensions discount rate, published by Treasury in November of the relevant financial year.
- 5.177 Once a decision has been made then agreement must be reached with NHS Pensions as to how the liability will be discharged. If a lump sum payment is agreed, this payment must be charged against the provision initially, with any remainder to operating expenses.
- 5.178 If a 5-year payment is agreed, then the provision must be adjusted to this amount and transferred to 'Trade and other payables', split appropriately between a current liability and a non-current liability.
- 5.179 For local government pension scheme early retirements, cash outflows will be discounted using the pension liability discount rate for that scheme.

Injury benefits

- 5.180 NHS employers are responsible for meeting the cost of injury benefits awards in respect of claims made by NHS employees. The entitlement to injury benefits and the amount of the awards are decided by NHS Pensions. The agency will notify the claimants' employer of the award made.

- 5.181 Shortly after payments are made, NHS Pensions will invoice the employer for the rechargeable amount.
- 5.182 The details provided on the award notification and the subsequent invoice must be used for calculating injury benefit provisions as per IAS 37, including discounting if material, using the appropriate Treasury pensions discount rate for the financial period.

Defined Benefit Pension Schemes

- 5.183 The relevant standard is IAS19, Employee Benefits. The FReM requires NHS bodies to account for the NHS Pensions Scheme as a defined contribution scheme and so they will generally recognise an expense each year equal to their total employer contribution.
- 5.184 As the scheme is designed in such a way that the NHS body cannot identify its total share of assets or liabilities in the scheme, there is no requirement to recognise them in the accounts.
- 5.185 Where an entity has staff who are members of a defined benefit pension scheme (for example, Local Government Pension Schemes), and where their assets and liabilities in the scheme can be separately identified, these must be disclosed as described in IAS 19.

Statement of Changes in Taxpayers Equity (SoCTE)

- 5.186 The relevant standards are IAS 1, Presentation of Financial Statements, and IAS 20, Accounting for Government Grants and Disclosure of Government Assistance.
- 5.187 DHSC group bodies must present a SoCTE analysed by the same reserves as presented in the SoFP (see paragraph 5.130). Financing from the parent body must be included in the analysis of reserve movements as follows:
- net Parliamentary funding (DHSC agencies and special health authorities)
 - grant-in-aid (DHSC NDPBs)
 - net funding (ICBs)
 - PDC received (NHS providers)
 - PDC repaid (NHS providers)

- PDC written off (NHS providers)
- share capital issued (limited companies)

Statement of Cash Flows (SoCF)

- 5.188 The relevant standard is IAS 7, Statement of Cash Flows. For foreign exchange entries, the relevant standard is IAS 21, The Effects of Changes in Foreign Exchange Rates.
- 5.189 Amounts must be shown gross. This is very important for receipts and repayments of loans and PDC (where relevant), to enable DHSC reconciliations.
- 5.190 Cash and cash equivalents in the SoCF must include bank overdrafts where they are repayable on demand and form an integral part of the entity's cash management.
- 5.191 This is different to the treatment in the SoFP, where IAS 32, Financial Instruments: Presentation prohibits overdrafts from being off-set in this way.
- 5.192 In reconciling the operating expenditure to operating cash flows, entities must exclude movements in receivables and payables relating to items that do not pass through the SoCNE / SoCI (capital expenditure, finance leases, PFI contracts and loans receivable).
- 5.193 In analysing capital expenditure and financial investment cash flows, entities must adjust for receivables and payables relating to capital expenditure and those relating to loans issued to or repaid by other bodies.
- 5.194 In analysing financing cash flows, entities must adjust for receivables and payables relating to the capital element of payments in respect of leases and on-balance sheet PFI/LIFT contracts.
- 5.195 IAS 7 permits discretion as to where certain cash flows may be disclosed, depending on how an entity views them in relation to its activities.
- 5.196 In order to ensure consistency of treatment across the accounts group, the following cash flows must be disclosed within the Statements of Cash Flows:
- interest received on investments represents cash flows associated with investing activities and must be disclosed under that heading

- cash flows in relation to the payment of interest, including the interest element of finance lease rentals, are associated with financing activities and must therefore be disclosed under that heading
 - for NHS providers, the payment of PDC dividend also represents a cash flow associated with financing activities and therefore must be disclosed under that heading.
- 5.197 DHSC group bodies must use the indirect method in their financial statements as guided by the example accounts for each sector.

Other Disclosure Notes

Pooled budgets

- 5.198 A “pooled budget” in the NHS context may be a “joint operation” as defined by the relevant standard IFRS 11, Joint Arrangements.
- 5.199 Where the arrangement constitutes a “joint venture”, IAS 28 (as adapted) is applicable. [Chapter 4 Annex 8 – Accounting for Pooled Budgets and Joint Arrangements](#) refers.
- 5.200 Unless transactions are immaterial, disclosure of a joint arrangement is required under IFRS 12.

Better Payment Practice code – measure of compliance

- 5.201 This note reports compliance with the better payment practice (BPP) code in respect of invoices received from both NHS and non-NHS trade creditors. The code is summarised as:
- Target: pay all NHS and non-NHS trade payables within 30 calendar days of receipt of goods or a valid invoice (whichever is later) unless other payment terms have been agreed
 - Compliance: at least 95% of invoices paid (by the bank automated credit system or date and issue of a cheque) within thirty days or within agreed contract terms.
- 5.202 The note must relate to all invoices paid during the year, excluding those issued up to 31 March that are in dispute at the year-end.
- 5.203 The note must disclose, for both NHS and non-NHS trade payables:

- the total number and value of trade payables paid in the year
- the total number and value of trade payables paid within the target
- the percentage, by number and value, of trade payables paid within the target.

5.204 NHS foundation trusts have discretion over whether to include this disclosure in their accounts, but otherwise must include it in their annual report.

The Late Payment of Commercial Debts (Interest) Act 1998

5.205 The [Late Payment of Commercial Debts \(Interest\) Act 1998](#) allows entities to claim interest on the late payment of debts by contracting partners.

5.206 Creditors can also claim a fixed sum of compensation should late payment occur. This is to cover debt recovery costs. This was updated under SI 2013 No.395, [The Late Payment of Commercial Debts Regulations 2013](#).

5.207 This note must disclose the amounts of both interest and compensation paid during the year under this legislation.

5.208 NHS foundation trusts have discretion over whether to include this disclosure in their accounts, but otherwise must include it in their annual report.

Compliance with Public Contract Regulations 2015 (PCRs)

5.209 Procurement policy note (PPN) 03/16 issued on 21 March 2015 restated the annual public requirements under regulation 113(7) of the Public Contract Regulations 2015.

5.210 It requires contracting authorities to publish data demonstrating compliance, with the information being freely available via the internet. Further [guidance on the PCRs is published on gov.uk](#).

5.211 The BPP and Late Payment disclosures detailed above go a significant way to satisfying the requirements under PCR but do not generate 100% compliance. To ensure full compliance with PCRs entities must also disclose the following detail relating to payment performance and liability to pay interest accrued.

5.212 In relation to performance, disclosure should include:

- the total number and value of invoices paid within 30 days

- the total number and value of invoices paid within the BPP target that should have been paid within the 30-day period.
- the percentage, by number and value, of invoices that have actually been paid against invoices that should have been paid.

5.213 In relation to any liabilities, disclosure should include:

- the total amount of any liability to pay interest which accrued by failing to pay invoices within the 30-day period where obligated to do so
- the total amount of interest actually paid in the discharge of any such liability

5.214 To align provider sector reporting in the ARA, the PCR requirements detailed in paragraph 5.212 and 5.213 are mandated for NHS Trusts. The FT ARM has mandated the reporting for FTs.

5.215 Whilst the PCRs apply to all departments, executive agencies, non-departmental public bodies and wider public bodies, the need to publish data demonstrating compliance with PCRs in the ARA is not mandatory. The PCRs merely request that the data is freely available on the internet.

5.216 Whilst not mandated beyond the provider sector, entities may view the ARA and format described above a suitable framework through which to report PCR compliance.

5.217 The PCRs requirement for disclosure of payment performance exempts contracts within the scope of the NHS (Procurement, Patient Choice and Competition) (No2) Regulations 2013, thus referring to NHS healthcare contracts.

5.218 This exemption specifically relates to NHS Commissioners and their healthcare contracts only, not extending to situations where providers sub contract with another provider.

5.219 Note that BPP and Late payment requirements remain in force and require the NHS / non-NHS split described in paragraph 5.140.

Capital and Other Commitments

5.220 For capital commitments, the relevant standards are IAS 16, Property, Plant and Equipment paragraph 74(c) and IAS 38, Intangible Assets paragraph 122(e).

- 5.221 DHSC group bodies must disclose total contracted capital commitments at 31 March not otherwise included in the financial statements, analysed by PPE and intangible assets.
- 5.222 Other financial commitments (excluding leases, PFI and LIFT) under non-cancellable contracts, not already on the Statement of Financial Position, must also be disclosed, showing the total commitments analysed by the following periods:
- not later than one year
 - later than one year and not later than five years
 - later than five years.
- 5.223 Individually material other financial commitments should be separately disclosed along with a brief description of the nature of these commitments.

Commitments under leases

- 5.224 The relevant standards is IFRS 16. The disclosures prescribed by this standard and the specific disclosure objective for both lessee and lessor are outlined in [Chapter 4 Annex 11](#).
- 5.225 It is expected in the standard that these disclosures take the form of one note, but where the information is disclosed elsewhere in the financial statements, the detail should be cross referenced in the leases note rather than duplicated.

Commitments under PFI, LIFT and other service concession arrangements

- 5.226 The relevant standards for this note are IFRIC 12, Service Concession Arrangements, SIC 29, Service Concession Arrangements: Disclosures, IFRS 7, Financial Instrument: Disclosures and IFRS 16, Leases.
- 5.227 The disclosures in SIC 29, Service Concession Arrangements: Disclosures must be provided for all schemes.
- 5.228 Public Private Partnerships may comprise arrangements that are treated under IFRS as either on-SoFP or off-SoFP.
- 5.229 Where relevant, DHSC group bodies must include the following disclosures separately for LIFT contracts and for PFIs and other service concession arrangements.

5.230 For off-SoFP arrangements, DHSC group bodies must disclose total future minimum payments analysed by the following periods:

- not later than one year
- later than one year and not later than five years
- later than five years.

5.231 For on-SoFP arrangements, DHSC group bodies must disclose the total commitments, including commitments in respect of ongoing service elements of the contract, analysed by the same periods as above.

5.232 DHSC group bodies must provide disclosures for the imputed PFI liability element of the contract measured as a lease in accordance with IFRS 16 per the above periods. It is not necessary to analyse these disclosures by class of asset.

5.233 For on-SoFP arrangements, DHSC group bodies must also disclose details of in year expenditure in respect of service charges under PFI and LIFT contracts. For NHS providers, this requirement will be met by the additional disclosure requirement below.

5.234 Note: Due to differences between the requirements for entity accounts, and additional collection for the Whole of Government Accounts, there are additional collection requirements in summarisation schedules.

5.235 NHS providers only: For on-SoFP arrangements, disclosure is required of the total unitary payment paid to the operator(s) in the year, on an accruals basis. This must be the amount paid over; any PFI support income must not be netted off. This can be for all schemes in total or individual schemes shown separately, at the entity's discretion.

5.236 Where relevant, any other amounts paid to the operator under the service concession contract must also be disclosed. The amount paid must also be broken down into:

- interest charge
- repayment of balance sheet obligation
- service element
- capital lifecycle costs
- revenue lifecycle costs

- addition to lifecycle prepayment.

5.237 Under section 410A of the Companies Act 2006, where an entity is a party to an arrangement (including PFI) which is not reflected in its SoFP and where, at the SoFP date, the risks or benefits in relation to them are material, it must disclose in a note to the accounts:

- the nature and business purpose of the arrangements, and
- the financial impact of the arrangements on the entity.

5.238 The information need only be given to the extent necessary for enabling the financial position of the entity to be assessed.

Contingencies

5.239 The relevant standard is IAS 37, Provisions, Contingent Liabilities and Contingent Assets.

5.240 DHSC group bodies must disclose their material contingent assets and liabilities. Where relevant, this must include at least the following categories of contingent liabilities:

- clinical negligence (NHS Resolution only)
- NHS Resolution legal claims
- employment tribunal and other employee related litigation

5.241 Where disclosure of a contingent asset or liability may prejudice legal proceedings, the situation should be discussed with the external auditor of the DHSC group body, and agreement reached on what disclosure is possible/appropriate.

5.242 Where an entity has not disclosed in its annual report details of remote contingent liabilities outside the scope of IAS 37 but required for Parliamentary reporting purposes (see paragraph 3.131), this information must be disclosed as a note to the accounts.

Events after the reporting period

5.243 The relevant standard is IAS 10, Events after the Reporting Period. Adjusting events must be reflected in the financial statements.

5.244 Where non-adjusting events after the reporting period are so material that non-disclosure could influence the economic decisions of users taken on the basis of the financial statements, the following information is required:

- the nature of the event, and
- an estimate of its financial effect, or a statement that such an estimate cannot be made.

5.245 DHSC group bodies must disclose the date when the financial statements were authorised for issue and who gave that authorisation (IAS 10.17).

Related party transactions

5.246 The relevant standard is IAS 24, Related Party Disclosures, interpreted as set out in Chapter 4 Annex 1: IFRS Standards and applicability to the DHSC group.

5.247 NHS bodies should be aware of IAS 24 paragraph 17A, which refers to key management personnel services being provided by another entity.

5.248 HM Treasury considers government departments and their agencies, and Department of Health and Social Care Ministers, their close families and entities controlled or influenced by them, as being parties related to DHSC group bodies.

5.249 A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the entity's perspective but material from a related party viewpoint then the entity must disclose it.

5.250 Paragraph 25 of IAS 24 allows entities which are related parties because they are under the same government control to reduce the volume of the detailed disclosures.

5.251 Note also that IAS 24 is interpreted such that DHSC group bodies must disclose the Department of Health and Social Care as the parent department and provide a note of the main entities within the public sector with which the body has had dealings, but that no information needs to be given about these transactions.

5.252 NHS bodies must disclose as a related party all linked NHS charities (where these are not consolidated) including the nature of the relationship, and details of material transactions between the body and the linked charity.

5.253 Linked NHS charities are those where the charity has corporate trustees (i.e. the board of the NHS trust or foundation trust act as the trustees of the charity) or

where there are trustees appointed by the Secretary of State or NHSE acting for the Secretary of State.

Losses and special payments

5.254 Entities must report losses and special payments as required by HM Treasury's [Managing Public Money](#). Annexes 4.10 and 4.13 of Managing Public Money contain guidance on the definitions of losses and special payments.

5.255 Where an entity has not disclosed details of losses and special payments in its annual report (see paragraph 3.129), this information must be disclosed as a note to the accounts.

5.256 In the note to the accounts entities must disclose:

- separately the total number and total value of losses and special payments,
- a brief description of individual losses and special payments over £300,000, including those relating to clinical negligence, fraud, personal injury, compensation under legal obligation and fruitless payments
- a statement that these amounts are reported on an accruals basis but excluding provisions for future losses, and
- any other explanation considered necessary.

5.257 Losses over £300,000 must be listed under the following categories:

- Cash and other losses (including overpayments, physical losses, unvouched payments and theft)
- Fruitless payments and constructive losses
- Claims waived or abandoned (excluding cases between DHSC group bodies)
- Stores losses and damage to property

5.258 For bad debts, each case is an individual debtor and not each invoice. For stores losses, the total net losses revealed at any one store within the year must be aggregated and treated as one case (for example, pharmaceutical stores). Losses of property must be aggregated to produce a total loss per case.

NHS providers

5.259 NHS providers must follow the requirements of Managing Public Money in full, including contacting NHSE to seek approval from HM Treasury for any proposed special severance payments.

5.260 In addition to the above requirements, NHS providers must analyse the total number and total volume of losses by the categories described in paragraph 5.257.

5.261 NHS providers must also analyse the following, irrespective of value:

- the total number and value of special payments categorised between:
 - extra-contractual payments
 - extra-statutory and extra-regulatory payments
 - compensation payments
 - special severance payments, and
 - ex gratia payments

Gifts

5.262 In line with the guidance in Managing Public Money Annex 4.12, DHSC group bodies must report on the total value of gifts made, if this exceeds £300,000, and provide details of any individual gifts over £300,000.

5.263 DHSC group bodies are not expected to make gifts in the normal course of business, and must contact their national body or DHSC sponsor division in the first instance.

Third party assets

5.264 This note is an HMT requirement.

5.265 Third party assets are assets for which an entity acts as custodian or trustee but in which neither the entity nor government more generally has a direct beneficial interest. An example is money held on behalf of patients.

5.266 Third party assets are not recognised in the entity's SoFP.

5.267 DHSC group bodies must disclose any third-party assets held, analysed by at least the following headings:

- bank balances
- monies on deposit.

Business combinations disclosure

5.268 A DHSC group body that receives a transfer of functions must disclose in its financial statements:

- the fact that the transfer has taken place
- a brief description of the transfer, including:
 - the date of the transfer
 - the name of the body that transferred the function
 - the effect on the financial statements, and
 - the historical financial performance of the function, to enable users to understand the operational performance.

5.269 The party that transfers the functions, assets or liabilities outwards must provide similar disclosures.

5.270 Where that body has dissolved, the final set of accounts must contain an “events after the reporting period” disclosure, giving this detail (see [Chapter 4 Annex 9: Reporting requirements on change of status](#)).

5.271 Summarisation schedules will require a more detailed analysis to enable the transitions to be reconciled between transferor and transferee.

5.272 Where the substance of the transaction is effectively one of an acquisition, the DHSC group body should consider whether some, or all, of the IFRS 3, Business Combinations disclosures are needed to provide readers with a proper understanding of the transaction.

Performance disclosures for NHS trusts

5.273 NHS trusts must include a disclosure note of performance against the breakeven duty.

- 5.274 Trusts should refer to [guidance issued by NHSE for details of the application of the breakeven duty](#) and the required disclosure.
- 5.275 NHS trusts must also include a disclosure note of performance against the capital resource limit.
- 5.276 This must follow the format provided in the summarisation schedules issued by NHSE.
- 5.277 NHS trusts must also include a disclosure note of performance against the external finance limit using the following format:

External finance limit (EFL)	X
Cash flow financing (from SoCF) (1)	X
Other capital receipts	X
External financing requirement	X
Under / (Over) spend against EFL	X / (X)

Note

(1) This is defined as net cash flows before financing, following the derivation set out in the NHSE provider finance in year monitoring return (PFR).

Chapter 5 Annex 1: Example accounting policies

- 5.278 The annex provides a standard template for DHSC group bodies to use as a basis for their accounting policies note. Entities may tailor the text to suit their specific circumstances, but must adopt accounting policies consistent with any group wide policies specified in this manual.
- 5.279 Where alternative wordings are specified for different sectors (for example, NHS providers), the appropriate text should be selected and other variants omitted. National bodies may provide NHS sectors with versions of the accounting policies tailored in this way.
- 5.280 Entities may omit policies that are not relevant or have immaterial effect.

The accounting policies set out below are for illustrative purposes. When using them to prepare an accounting policies note, entities should add to or amend the text where needed to reflect the nature of their business and the specific policies they adopt as a result. DHSC ALBs in particular should ensure their accounting policies reflect their specific circumstances.

Text in italics constitutes instructions to preparers of accounts, and should not appear in the published accounting policies note.

Text in [square brackets] indicates optional text or variant wordings for different types of entities. Entities should include only relevant text.

1. Accounting Policies

NHS bodies:

[The Secretary of State for Health / NHS England and NHS Improvement, in exercising the statutory functions conferred on NHS England] has directed that the financial statements of [NHS trusts / NHS foundation trusts / Integrated Care Boards] shall meet the accounting requirements of the Department of Health and Social Care Group Accounting Manual (GAM), which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the DHSC Group Accounting Manual 2021-22, issued by the Department of Health and Social Care. The accounting policies contained in the GAM follow International Financial Reporting Standards to the extent that they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. Where the DHSC Group Accounting Manual permits a choice of accounting policy, the accounting policy that is judged to be most appropriate to the particular circumstances of the [NHS trust / NHS foundation trust / Integrated Care Board] for the purpose of giving a true and fair view has been selected. The particular policies adopted are described below. These have been applied consistently in dealing with items considered material in relation to the accounts.

National consolidations and DHSC ALBs:

These financial statements have been prepared in a form directed by the Secretary of State and in accordance with the Financial Reporting Manual (FReM) 2023-24, issued by HM Treasury, and the Department of Health and Social Care Group Accounting Manual (GAM) 2023-24. The accounting policies contained in the FReM and GAM follow International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM or GAM permits a choice of accounting policy, the accounting policy that is judged to be most appropriate to the particular circumstances of [the entity] for the purpose of giving a true and fair view has been selected. The particular policies adopted are described below. These have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Going concern

State whether the entity's accounts have been prepared on a going concern basis and explain the rationale. Where applicable, entities must also describe any material uncertainties over going concern.

Suggested disclosures are given below.

NHS bodies:

[The entity's] annual report and accounts have been prepared on a going concern basis. Non-trading entities in the public sector are assumed to be going concerns where the continued provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.

DHSC ALBs:

[The entity's] annual report and accounts have been prepared on a going concern basis. [The entity] is [supply financed / financed by grant-in-aid] and draws its funding from the Department of Health and Social Care (DHSC). Parliament has demonstrated its commitment to fund DHSC for the foreseeable future, and DHSC has demonstrated its commitment to the funding of [the entity].

1.2 Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of [investment property,] property, plant and equipment, intangible assets, [stockpiled goods] and certain financial assets and financial liabilities.

Consolidated accounts, NHS providers with consolidated charitable funds, and entities with interests in other entities:

[1.3 Basis of consolidation

Describe which entities are included in the account and the approach taken to consolidation.

NHS providers with consolidated charitable funds must disclose details of these. Where there are no other consolidated bodies, this note may be titled 'NHS charitable funds'.

1.3.1 Subsidiaries

Entities over which [the entity] has the power to exercise control are classified as subsidiaries and are consolidated. [The entity] has control when it has the ability to affect the variable returns from the other entity through its power to direct relevant activities. The income, expenses, assets, liabilities, equity and reserves of the subsidiary are consolidated in full into the appropriate financial statement lines. The capital and reserves attributable to non-controlling interests are included as a separate item in the Statement of Financial Position. Appropriate adjustments are made on consolidation where the subsidiary's accounting policies are not aligned with [the entity] or where the subsidiary's accounting date is not coterminous.

Subsidiaries that are classified as 'held for sale' are measured at the lower of their carrying amount or 'fair value less costs to sell'.

1.3.2 Associates

Entities over which [the entity] has the power to exercise significant influence so as to obtain economic or other benefits are classified as associates and are recognised in these financial statements using the equity method. The investment is recognised initially at cost and is adjusted subsequently to reflect [the entity]'s share of the associate's profit or loss and other gains or losses. It is also reduced when any distribution is received by [the entity] from the associate.

Associates that are classified as 'held for sale' are measured at the lower of their carrying amount or 'fair value less costs to sell'

1.3.3 Joint arrangements

Arrangements over which [the entity] has joint control with one or more other entities are classified as joint arrangements. Joint control is the contractually agreed sharing of control of an arrangement. A joint arrangement is either a joint operation or a joint venture.

A joint operation exists where the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement. Where [the entity] is a joint operator it recognises its share of, assets, liabilities, income and expenses in its own accounts.

Provide details if this applies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint ventures are recognised as an investment and accounted for using the equity method.

Provide details if this applies.]

1.4 Critical accounting judgements and key sources of estimation uncertainty

In the application of [the entity's] accounting policies, management is required to make various judgements, estimates and assumptions. These are regularly reviewed.

1.4.1 Critical judgements in applying accounting policies

The following are the judgements, apart from those involving estimations (see below) that management has made in the process of applying [the entity's] accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Disclose the judgements made by management, as required by IAS 1.122.

1.4.2 Sources of estimation uncertainty

The following are assumptions about the future and other major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Disclose information about assumptions and sources of estimation uncertainty, as required by IAS 1.125. Disclosures must include the nature of the assumption and the carrying amount of the asset/liability at the end of the reporting period and may include sensitivity of the carrying amount to the assumptions, expected resolution of uncertainty and range of possible outcomes within the next financial year, and an explanation of changes to past assumptions if the uncertainty remains unresolved. Examples could include: indices used for asset valuations, asset lives, provision balances, intangible asset valuations.

1.5 Transfer of functions

As public sector bodies are deemed to operate under common control, business reconfigurations within the DHSC group are outside the scope of IFRS 3 Business Combinations. Where functions transfer between two public sector bodies, the GAM requires the application of 'absorption accounting'. Absorption accounting requires that entities account for their transactions in the period in which they took place. Where assets and liabilities transfer, the gain or loss resulting is recognised in the Statement of Comprehensive [Income / Net Expenditure], and is disclosed separately from operating costs. [Where relevant] Transfers of former Primary Care Trust assets from NHS Property Services to NHS providers under the Asset Transfer Policy, will occur via a modified absorption approach, in which the corresponding debit / credit to reflect the gain / loss on transfer is recognised directly through the reserves.

1.6 Pooled budgets

[The entity] has entered into a pooled budget arrangement with [xxx] [in accordance with section 75 of the NHS Act 2006]. Under the arrangement, funds are pooled for [describe activities] and [a note to the accounts] provides details of the income and expenditure.

The pool is hosted by [body]. [The entity] accounts for its share of the assets, liabilities, income and expenditure arising from the activities of the pooled budget, identified in accordance with the pooled budget agreement.

1.7 Operating segments

Income and expenditure are analysed in the Operating Segments note and are reported in line with management information used within [the entity].

1.8 Revenue

In the application of IFRS 15 a number of practical expedients offered in the Standard have been employed. These are as follows;

[the entity] is not required to disclose information regarding performance obligations that are part of a contract that has an original expected duration of one year or less,

[The entity] is not required to disclose information where revenue is recognised in line with the practical expedient offered in the Standard, where the right to consideration corresponds directly with value of the performance completed to date.

The FReM has mandated the exercise of the practical expedient offered in the Standard that requires [the entity] to reflect the aggregate effect of all contracts modified before the date of initial application.

[List any other expedients employed by the entity]

NHS providers:

The main source of revenue for [the entity] is contracts with commissioners in respect of healthcare services. Revenue in respect of services provided is recognised when (or as) performance obligations are satisfied by transferring promised services to the customer, and is measured at the amount of the transaction price allocated to that performance obligation. At the year end, [the entity] accrues income relating to performance obligations satisfied in that year. Where a patient care spell is incomplete at the year end, revenue relating to the partially complete spell is accrued in the same manner as other revenue.

Where income is received for a specific performance obligation that is to be satisfied in the following year, that income is deferred. The method adopted to assess progress towards the complete satisfaction of a performance obligation is [provide details].

[The entity] receives income under the NHS Injury Cost Recovery Scheme, designed to reclaim the cost of treating injured individuals to whom personal injury compensation has subsequently been paid, for instance by an insurer. [The entity] recognises the income when it receives notification from the Department of Work and Pension's Compensation Recovery Unit, has completed the NHS2 form and confirmed there are no discrepancies with the treatment. The income is measured at the agreed tariff for the treatments provided to the injured individual, less a provision for unsuccessful compensation claims and doubtful debts in line with IFRS 9 requirements of measuring expected credit losses over the lifetime of the asset.

If the NHS provider sells goods, disclose the relevant accounting policies for this too.

Income from the sale of non-current assets is recognised only when all material conditions of sale have been met, and is measured as the sums due under the sale contract.

Outline any other sources of revenue.

Other entities:

Outline the main sources of revenue.

Revenue in respect of services provided is recognised when (or as) performance obligations are satisfied by transferring promised services to the customer, and is measured at the amount of the transaction price allocated to that performance obligation.

Where income is received for a specific performance obligation that is to be satisfied in the following year, that income is deferred.

Payment terms are standard reflecting cross government principles. Significant terms include [provide details].

The value of the benefit received when [the entity] accesses funds from the Government's apprenticeship service are recognised as income in accordance with IAS 20, Accounting for Government Grants. Where these funds are paid directly to an accredited training provider, non-cash income and a corresponding non-cash training expense are recognised, both equal to the cost of the training funded.

1.9 Employee Benefits

1.9.1 Short-term employee benefits

Salaries, wages and employment-related payments, including payments arising from the apprenticeship levy, are recognised in the period in which the service is received from employees, including non-consolidated performance pay earned but not yet paid. The cost of leave earned but not taken by employees at the end of the period is recognised in the financial statements to the extent that employees are permitted to carry forward leave into the following period.

1.9.2 Retirement benefit costs

Civil Service Pensions (where relevant)

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS). These schemes are unfunded, defined benefit schemes covering civil servants. The schemes are not designed in a way that would enable employers to identify their share of the underlying scheme assets and liabilities. Therefore, the schemes are accounted for as though they were defined contribution schemes: the cost to [the entity] of participating in a scheme is taken as equal to the contributions payable to the scheme for the accounting period.

For defined contribution schemes, such as Civil Service partnership pensions, [the entity] recognises the contributions payable for the year.

[The entity] recognises the full cost of benefits paid under the Civil Service Compensation Scheme, including the early payment of pensions.

NHS Pensions (where relevant)

Past and present employees are covered by the provisions of the NHS Pensions Schemes. These schemes are unfunded, defined benefit schemes that cover NHS employers, General Practices and other bodies allowed under the direction of the Secretary of State in England and Wales. The schemes are not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the schemes are accounted for as though they were defined contribution schemes: the cost to [the NHS body] of participating in a scheme is taken as equal to the contributions payable to the scheme for the accounting period.

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to expenditure at the time [the NHS body] commits itself to the retirement, regardless of the method of payment.

The schemes are subject to a full actuarial valuation every four years and an accounting valuation every year.

Local Government Pensions (where relevant)

Some employees are members of the Local Government Pension Scheme (LGPS), which is a defined benefit pension scheme. The scheme assets and liabilities attributable to those employees can be identified and are recognised in [the NHS body]'s accounts. The assets are measured at fair value and the liabilities at the present value of the future obligations. The increase in the liability arising from pensionable service earned during the year is recognised within operating expenses. The interest cost during the year arising from the unwinding of the discount on the scheme liabilities is recognised within finance costs. The interest earned during the year from scheme assets is recognised within finance income. Re-measurements of the defined benefit plan are recognised in the Income and Expenditure reserve and reported as an item of other comprehensive [income / net expenditure].

Where an entity cannot identify LGPS assets and liabilities attributable to its employees, it should account for the scheme as a defined contribution scheme and include a suitable accounting policy.

Where entities have employees that are members of other pensions schemes, they should satisfy themselves of the accounting and disclosure requirements for these schemes under IAS 19, and include an accounting policy for these schemes as required.

1.10 Other expenses

Other operating expenses are recognised when, and to the extent that, the goods or services have been received. They are measured at the fair value of the consideration payable.

1.10.1 Grants payable (where relevant)

Where grant funding is not intended to be directly related to activity undertaken by a grant recipient in a specific period, [the entity] recognises the expenditure in the period in which the grant is paid. All other grants are accounted for on an accruals basis.

1.10.2 Value added tax

Most of the activities of [the entity] are outside the scope of value added tax (VAT). Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

Entities for which the above is not appropriate should specify an alternative policy.

1.10.3 Climate Change Levy

Expenditure is recognised in line with the levy charged, based on the chargeable rates for energy consumption per the rates detailed in the [Climate Change Levy documentation](#).

[1.11 Corporation tax

Entities liable to pay corporation tax should provide details and include an appropriate accounting policy.]

1.12 Property, plant and equipment

1.12.1 Recognition

Property, plant and equipment is capitalised if:

it is held for use in delivering services or for administrative purposes

it is probable that future economic benefits will flow to, or service potential will be supplied to [the entity]

it is expected to be used for more than one financial year

the cost of the item can be measured reliably, and either

the item has cost of at least £5,000, or

collectively, a number of items have a cost of at least £5,000 and individually have a cost of more than £250, where the assets are functionally interdependent, had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control.

Where a large asset, for example a building, includes a number of components with significantly different asset lives, the components are treated as separate assets and depreciated over their individual useful economic lives.

1.12.2 Measurement

All property, plant and equipment is measured initially at cost, representing the cost directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management. Assets that are held for their service potential and are in use are measured subsequently at their current value in existing use. Assets that were most recently held for their service potential but are surplus are measured at fair value where there are no restrictions preventing access to the market at the reporting date.

Revaluations of property, plant and equipment are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Current values in existing use are determined as follows:

Land and non-specialised buildings – market value for existing use
Specialised buildings – depreciated replacement cost, modern equivalent asset basis.

(Where applicable) [Assets held at depreciated replacement cost have been valued on an alternative site basis where this would meet the location requirements of the service being provided.]

Properties in the course of construction for service or administration purposes are carried at cost, less any impairment loss. Cost includes professional fees and, where capitalised in accordance with IAS 23, borrowing costs. Assets are revalued and depreciation commences when they are brought into use.

IT equipment, transport equipment, furniture and fittings, and plant and machinery that are held for operational use are valued at depreciated historic cost where these assets have short useful economic lives or low values or both, as this is not considered to be materially different from current value in existing use. (A different policy should be adopted and disclosed here where assets are not of sufficiently low value and/or do not have sufficiently short lives for depreciated historic cost to be materially the same as current value in existing use.)

An increase arising on revaluation is taken to the revaluation reserve except when it reverses an impairment for the same asset previously recognised in expenditure, in which case it is credited to expenditure to the extent of the decrease previously charged there. A revaluation decrease that does not result from a loss of economic value or service potential is recognised as an impairment charged to the revaluation reserve to the extent that there is a balance on the reserve for the asset, and thereafter to expenditure. Gains and losses recognised in the revaluation reserve are reported as other comprehensive [income / net expenditure] in the [Statement of Comprehensive Income / Net Expenditure].

1.12.3 Subsequent expenditure

Where subsequent expenditure enhances an asset beyond its original specification, the directly attributable cost is capitalised. Where subsequent expenditure restores the asset to its original specification, the expenditure is capitalised and any existing carrying value of the item replaced is written-out and charged to operating expenses.

1.13 Investment properties

Investment properties are measured at fair value. Changes in fair value are recognised as gains or losses in income/expenditure.

Only those assets which are held solely to generate a commercial return are considered to be investment properties. Where an asset is held, in part, for support service delivery objectives, then it is considered to be an item of property, plant and equipment. Properties occupied by employees, whether or not they pay rent at market rates, are not classified as investment properties.

1.14 Intangible assets

1.14.1 Recognition

Intangible assets are non-monetary assets without physical substance, which are capable of sale separately from the rest of [the entity's] business or which arise from contractual or other legal rights. They are recognised only when it is probable that future economic benefits will flow to, or service potential be provided to, [the entity]; where the cost of the asset can be measured reliably; and where the cost is at least £5,000.

Software that is integral to the operating of hardware, for example an operating system, is capitalised as part of the relevant item of property, plant and equipment. Software that is not integral to the operation of hardware, for example application software, is capitalised as an intangible asset.

Expenditure on research is not capitalised: it is recognised as an operating expense in the period in which it is incurred. Internally-generated assets are recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use
- the intention to complete the intangible asset and use it
- the ability to sell or use the intangible asset
- how the intangible asset will generate probable future economic benefits or service potential
- the availability of adequate technical, financial and other resources to complete the intangible asset and sell or use it, and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

1.14.2 Measurement

Intangible assets acquired separately are initially recognised at cost. The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the criteria for recognition are initially met. Where no

internally-generated intangible asset can be recognised, the expenditure is recognised in the period in which it is incurred.

Following initial recognition, intangible assets are carried at current value in existing use by reference to an active market, or, where no active market exists, at the lower of amortised replacement cost (modern equivalent assets basis) and value in use where the asset is income generating. Internally-developed software is held at historic cost to reflect the opposing effects of increases in development costs and technological advances.

Revaluations and impairments are treated in the same manner as for property, plant and equipment.

1.15 Depreciation, amortisation and impairments

Freehold land, assets under construction or development, [investment properties,] [stockpiled goods,] and assets held for sale are not depreciated/amortised.

Otherwise, depreciation or amortisation is charged to write off the costs or valuation of property, plant and equipment and intangible assets, less any residual value, on a straight-line basis over their estimated useful lives. The estimated useful life of an asset is the period over which [the entity] expects to obtain economic benefits or service potential from the asset. This is specific to [the entity] and may be shorter than the physical life of the asset itself. Estimated useful lives and residual values are reviewed each year end, with the effect of any changes recognised on a prospective basis.

Assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful life, unless [the entity] expects to acquire the asset at the end of the lease term, in which case the asset is depreciated in the same manner as for owned assets

At each financial year end, [the entity] checks whether there is any indication that its property, plant and equipment or intangible assets have suffered an impairment loss. If there is indication of such an impairment, the recoverable amount of the asset is estimated to determine whether there has been a loss and, if so, its amount. Intangible assets not yet available for use are tested for impairment annually at the financial year end.

Impairment losses that arise from a clear consumption of economic benefit are taken to expenditure. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount but capped at the amount that would have been determined had there been no initial impairment loss. The reversal of the impairment loss is credited to expenditure.

1.16 Donated assets

Donated non-current assets are capitalised at current value in existing use, if they will be held for their service potential, or otherwise at fair value on receipt, with a matching credit to income. They are valued, depreciated and impaired as described above for purchased assets. Gains and losses on revaluations, impairments and sales are treated in the same way as for purchased assets. Deferred income is recognised only where conditions attached to the donation preclude immediate recognition of the gain.

1.17 Government grant funded assets

Government grant funded assets are capitalised at current value in existing use, if they will be held for their service potential, or otherwise at fair value on receipt, with a matching credit to income. Deferred income is recognised only where conditions attached to the grant preclude immediate recognition of the gain.

1.18 Leases

A lease is a contract or part of a contract that conveys the right to use an asset for a period of time in exchange for consideration.

IFRS 16 Leases is effective across public sector from 1 April 2022. The transition to IFRS 16 has been completed in accordance with paragraph C5 (b) of the Standard, applying IFRS 16 requirements retrospectively recognising the cumulative effects at the date of initial application.

In the transition to IFRS 16 a number of elections and practical expedients offered in the Standard have been employed. These are as follows;

[The entity] has applied the practical expedient offered in the Standard per paragraph C3 to apply IFRS 16 to contracts or arrangements previously identified as containing a lease under the previous leasing standards IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease and not to those that were identified as not containing a lease under previous leasing standards.

On initial application [The entity] has measured the right of use assets for leases previously classified as operating leases per IFRS 16 C8 (b)(ii), at an amount equal to the lease liability adjusted for accrued or prepaid lease payments.

No adjustments have been made for operating leases in which the underlying asset is of low value per paragraph C9 (a) of the Standard.

The transitional provisions have not been applied to operating leases whose terms end within 12 months of the date of initial application has been employed per paragraph C10 (c) of IFRS 16.

Hindsight is used to determine the lease term when contracts or arrangements contain options to extend or terminate the lease in accordance with C10 (e) of IFRS 16.

[List any other transition expedients employed by the entity at its discretion]

Due to transitional provisions employed the requirements for identifying a lease within paragraphs 9 to 11 of IFRS 16 are not employed for leases in existence at the initial date

of application. Leases entered into on or after the 1st April 20xx will be assessed under the requirements of IFRS 16.

There are further expedients or election that have been employed by [the entity] in applying IFRS 16. These include;

The measurement requirements under IFRS 16 are not applied to leases with a term of 12 months or less under paragraph 5 (a) of IFRS 16.

The measurement requirements under IFRS 16 are not applied to leases where the underlying asset is of a low value which are identified as those assets of a value of less than £5,000, excluding any irrecoverable VAT, under paragraph 5 (b) of IFRS 16.

[The entity] will not apply IFRS 16 to any new leases of intangible assets applying the treatment described in section 1.14 instead.

[List any other expedients employed by the entity (such as low value 5(b) or 15 on componentisation)]

HM Treasury have adapted the public sector approach to IFRS 16 which impacts on the identification and measurement of leasing arrangements that will be accounted for under IFRS 16.

[the entity] is required to apply IFRS 16 to lease like arrangements entered into with other public sector entities that are in substance akin to an enforceable contract, that in their formal legal form may not be enforceable. Prior to accounting for such arrangements under IFRS 16 [the entity] has assessed that in all other respects these arrangements meet the definition of a lease under the Standard.

[the entity] is required to apply IFRS 16 to lease like arrangements entered into in which consideration exchanged is nil or nominal, therefore significantly below market value. These arrangements are described as peppercorn leases. Such arrangements are again required to meet the definition of a lease in every other respect prior to inclusion in the scope of IFRS 16. The accounting for peppercorn arrangements aligns to that identified for donated assets. Peppercorn leases are different in substance to arrangements in which consideration is below market value but not significantly below market value.

The nature of the accounting policy change for the lessee is more significant than for the lessor under IFRS 16. IFRS 16 introduces a singular lessee approach to measurement and classification in which lessees recognise a right of use asset.

For the lessor leases remain classified as finance leases when substantially all the risks and rewards incidental to ownership of an underlying asset are transferred to the lessee. When this transfer does not occur, leases are classified as operating leases.

1.18.1 [The entity] as lessee

At the commencement date for the leasing arrangement a lessee shall recognise a right of use asset and corresponding lease liability. [The entity] employs a revaluation model for the subsequent measurement of its right of use assets unless cost is considered to be an appropriate proxy for current value in existing use or fair value in line with the accounting policy for owned assets. Where consideration exchanged is identified as below market value, cost is not considered to be an appropriate proxy to value the right of use asset.

Lease payments are apportioned between finance charges and repayment of the principal. Finance charges are recognised in the Statement of Comprehensive [Income / Net Expenditure].

Irrecoverable VAT is expensed in the period to which it relates and therefore not included in the measurement of the lease liability and consequently the value of the right of use asset.

The incremental borrowing rate of [] has been applied to the lease liabilities recognised at the date of initial application of IFRS 16.

Where changes in future lease payments result from a change in an index or rate or rent review, the lease liabilities are remeasured using an unchanged discount rate.

Where there is a change in a lease term or an option to purchase the underlying asset [the entity] applies a revised rate to the remaining lease liability.

Where existing leases are modified [the entity] must determine whether the arrangement constitutes a separate lease and apply the Standard accordingly.

Lease payments are recognised as an expense on a straight-line or another systematic basis over the lease term, where the lease term is in substance 12 months or less, or is elected as a lease containing low value underlying asset by [the entity].

1.18.2 [The entity] as lessor (where relevant)

A lessor shall classify each of its leases as an operating or finance lease. A lease is classified as finance lease when the lease substantially transfers all the risks and rewards incidental to ownership of an underlying asset. Where substantially all the risks and rewards are not transferred, a lease is classified as an operating lease.

Amounts due from lessees under finance leases are recorded as receivables at the amount of [the entity]'s net investment in the leases. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on [the entity]'s net investment outstanding in respect of the leases.

Income from operating leases is recognised on a straight-line or another systematic basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Where [the entity] is an intermediate lessor, being a lessor and a lessee regarding the same underlying asset, classification of the sublease is required to be made by the intermediate lessor considering the term of the arrangement and the nature of the right of use asset arising from the head lease.

On transition [the entity] has reassessed the classification of all of its continuing subleasing arrangements

1.19 Private Finance Initiative (PFI) [and NHS Local Improvement Finance Trust (LIFT)] transactions (where relevant)

PFI [and NHS LIFT] transactions that meet the IFRIC 12 definition of a service concession, as interpreted in HM Treasury's FReM, are accounted for as 'on-Statement of Financial Position' by the trust. The underlying assets are recognised as property, plant and equipment, together with an equivalent PFI liability measured in alignment with the principles of IFRS 16 from 1 April 2023 as mandated by the FReM .

The annual unitary payment is separated into the following component parts, using appropriate estimation techniques where necessary:

payment for the fair value of services received

repayment of the PFI liability, including finance costs, and

payment for the replacement of components of the asset during the contract 'lifecycle replacement'.

1.19.1 Services received

The cost of services received in the year is recorded under the relevant expenditure headings within 'operating expenses'

1.19.2 PFI [and LIFT] assets, liabilities and finance costs

The PFI [/LIFT] assets are initially measured using the principles of IFRS 16. Subsequently, the assets are measured at current value in existing use per the policies applied under IAS 16.

A PFI [LIFT] liability equal to the capital value of the contract is recognised at the same time as the PFI [LIFT] assets are recognised. This does not include service elements and interest charges within the PFI contract which are expensed in accordance with IFRIC 12 as adapted and interpreted by the FReM and as detailed below.

An annual finance cost is calculated by applying the implicit interest rate in the contract to the opening PFI liability for the period, and is charged to 'Finance Costs' within the Statement of Comprehensive [Income / Net Expenditure].

An element of the annual unitary payment is therefore allocated as a financing cost when repaying the PFI liability over the life of the contract.

Where there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The entity remeasures the PFI liability to reflect those revised payments only when there is a change in the cash flows (i.e. when the adjustment to the payments takes effect). The entity shall determine the revised payments for the remainder of the PFI arrangement based on the revised contractual payments. As subsequent measurement of the PFI asset is per IAS 16 than IFRS 16, the opposite entry to adjustment of the PFI liability for such remeasurements is charged to Finance Costs.

Given the change in the measurement basis of the PFI liability, moving to an approach in line with IFRS 16 in which changes in future lease payments are not classified as contingent rent and expensed in the year they occur, but factored into the lease liability per IFRS 16, PPP liabilities at 1 April 2023 have been remeasured to include all the index linked changes relating to the capital element of the contract which would have taken place since the arrangement commenced. The entity has remeasured this using the cumulative catch up approach by which the cumulative effect of the change in measurement of the PFI liability is recognised as an adjustment to the opening balance of retained earnings (or other component of equity as appropriate). Comparative information is not restated

1.19.3 Lifecycle replacement

Components of the asset replaced by the operator during the contract ('lifecycle replacement') are capitalised where they meet [the entity]'s criteria for capital expenditure. They are capitalised at the time they are provided by the operator and are measured initially at cost.

The element of the annual unitary payment allocated to lifecycle replacement is pre-determined for each year of the contract from the operator's planned programme of lifecycle replacement. Where the lifecycle component is provided earlier or later than expected, a short-term accrual or prepayment is recognised respectively.

Where the fair value of the lifecycle component is less than the amount determined in the contract, the difference is recognised as an expense when the replacement is provided. If the fair value is greater than the amount determined in the contract, the difference is treated as a 'free' asset and a deferred income balance is recognised. The deferred

income is released to operating income over the shorter of the remaining contract period or the useful economic life of the replacement component.

1.19.4 Assets contributed by [the entity] to the operator for use in the scheme

Assets contributed for use in the scheme continue to be recognised as items of property, plant and equipment in [the entity]'s Statement of Financial Position.

1.19.5 Other assets contributed by [the entity] to the operator

Other assets contributed (e.g. cash payments, surplus property) by [the entity] to the operator before the asset is brought into use, where these are intended to defray the operator's capital costs, are recognised initially as prepayments during the construction phase of the contract. When the asset is made available to [the entity], the prepayment is treated as an initial payment towards the PFI liability and is set against the carrying value of the liability.

For PFI assets funded principally by third party usage, the following alternative policies should be used.

Where there is a unitary payment from the entity in respect of part of the asset, the following paragraph should replace the paragraph above for the PFI liability:

[A PFI liability is recognised at the same time as the PFI assets are recognised. It is measured initially at the capital value of the contract, discounted using the implicit interest rate, and is subsequently measured as a PFI liability in accordance with the FReM.

Additionally, the following policy is needed for the deferred income balance recognised in respect of the future service potential of the asset.

Either, where there is also a liability:

[On initial recognition of the asset, the difference between the fair value of the asset and the initial value of the PFI liability is recognised as deferred income, representing the future service potential to be received by [the entity] through the asset being made available to third party users.

The balance is subsequently released to operating income over the life of the concession on a straight-line basis.]

Or, if there is no initial liability at all:

[On initial recognition of the asset, an equivalent deferred income balance is recognised, representing the future service potential to be received by [the entity] through the asset being made available to third party users.

The balance is subsequently released to operating income over the life of the concession on a straight-line basis.]

Provide an accounting policy for any off-statement of financial position PFI/LIFT schemes, including the nature and business purpose of the arrangement and the financial impact on the entity.

If a PFI/LIFT property which is recognised and measured in accordance with IAS 17 is sub-leased to or from another DHSC group body, then provide appropriate accounting policies in addition to those above.

1.20 Inventories [and stockpiled goods]

Inventories are valued at the lower of cost and net realisable value, using the [first-in first-out / weighted average] cost formula.

(Where relevant) Strategic goods held for use in national emergencies (stockpiled goods) are held as non-current assets within property, plant and equipment. These stocks are maintained at minimum capability levels by replenishment to offset write-offs and so are not depreciated, as agreed with HM Treasury. Stockpiled goods are held at current value in existing use.

1.21 Cash and cash equivalents

Cash is cash in hand and deposits with any financial institution repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and that form an integral part of [the entity]'s cash management. Cash, bank and overdraft balances are recorded at current values.

1.22 Provisions

Provisions are recognised when [the entity] has a present legal or constructive obligation as a result of a past event, it is probable that [the entity] will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows using HM Treasury's discount rates.

Early retirement provisions are discounted using HM Treasury's pension discount rate of negative x.xx% (2021-22: negative x.xx%) in real terms. All general provisions are subject to four separate discount rates according to the expected timing of cashflows from the Statement of Financial Position date:

A nominal short-term rate of x.xx% (2021-22: minus x.xx%) for inflation adjusted expected cash flows up to and including 5 years from Statement of Financial Position date.

A nominal medium-term rate of x.xx% (2021-22: x.xx%) for inflation adjusted expected cash flows over 5 years up to and including 10 years from the Statement of Financial Position date.

A nominal long-term rate of x.xx% (2021-22: x.xx%) for inflation adjusted expected cash flows over 10 years and up to and including 40 years from the Statement of Financial Position date.

A nominal very long-term rate of x.xx% (2021-22: x.xx%) for inflation adjusted expected cash flows exceeding 40 years from the Statement of Financial Position date.

1.23 Clinical negligence costs (where relevant)

NHS Resolution (the trading name of the NHS Litigation Authority NHSLA) operates a risk pooling scheme under which [the entity] pays an annual contribution to NHS Resolution, which in return settles all clinical negligence claims. The contribution is charged to expenditure. Although NHS Resolution is administratively responsible for all clinical negligence cases, the legal liability remains with [the entity].

1.24 Non-clinical risk pooling (where relevant)

[The entity] participates in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. Both are risk pooling schemes under which [the entity] pays an annual contribution to NHS Resolution and, in return, receives assistance with the costs of claims arising. The annual membership contributions, and any excesses payable in respect of particular claims are charged to operating expenses as and when they become due.

ICBs:

[1.25 Continuing healthcare risk pooling

In 2014-15, a risk pool scheme was introduced by NHS England for continuing healthcare claims, for claim periods prior to 31 March 2013. Under the scheme, ICBs contribute annually to a pooled fund, which is used to settle the claims.]

1.26 Contingent liabilities and contingent assets

A contingent liability is:

a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of [the entity], or

a present obligation that is not recognised because it is not probable that a payment will be required to settle the obligation, or the amount of the obligation cannot be measured sufficiently reliably.

A contingent liability is disclosed unless the possibility of a payment is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of [the entity]. A contingent asset is disclosed where an inflow of economic benefits is probable.

Where the time value of money is material, contingent liabilities and contingent assets are disclosed at their present value.

1.27 Financial assets

Financial assets are recognised when [the entity] becomes party to the contractual provision of the financial instrument or, in the case of trade receivables, when the goods or services have been delivered. Financial assets are derecognised when the contractual rights have expired or when the asset has been transferred and [the entity] has transferred substantially all of the risks and rewards of ownership or has not retained control of the asset.

Financial assets are initially recognised at fair value plus or minus directly attributable transaction costs for financial assets not measured at fair value through profit or loss. Fair value is taken as the transaction price, or otherwise determined by reference to quoted market prices, where possible, or by valuation techniques. (Specify – see IFRS 9 B5.1.2A.)

Financial assets are classified into the following categories: financial assets at amortised cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit and loss. The classification is determined by the cash flow and business model characteristics of the financial assets, as set out in IFRS 9, and is determined at the time of initial recognition.

1.27.1 Financial assets at amortised cost

Financial assets measured at amortised cost are those held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and where the cash flows are solely payments of principal and interest. This includes most trade receivables, loans receivable, and other simple debt instruments.

Provide brief details of any other financial assets in this category.

After initial recognition, these financial assets are measured at amortised cost using the effective interest method, less any impairment. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the life of the financial asset to the gross carrying amount of the financial asset.

1.27.2 Financial assets at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income are those held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and where the cash flows are solely payments of principal and interest.

Provide brief details of any financial assets in this category.

Omit the following where not relevant.

[The entity] has irrevocably designated the following equity instruments as measured at fair value through other comprehensive income in accordance with IFRS 9 paragraph 4.1.4:

Specify equity instruments and the reason for designation.

1.27.3 Financial assets at fair value through profit and loss

Financial assets measured at fair value through profit or loss are those that are not otherwise measured at amortised cost or fair value through other comprehensive income. This includes derivatives and financial assets acquired principally for the purpose of selling in the short term.

Provide brief details of any other financial assets in this category.

Omit the following where not relevant.

[The entity] has irrevocably designated the following financial assets as measured at fair value through profit or loss in accordance with IFRS 9 paragraph 4.1.5:

Specify financial assets and the reason for designation.

1.27.4 Impairment

For all financial assets measured at amortised cost or at fair value through other comprehensive income (except equity instruments designated at fair value through other comprehensive income), lease receivables and contract assets, [the entity] recognises a loss allowance representing expected credit losses on the financial instrument.

[The entity] adopts the simplified approach to impairment, in accordance with IFRS 9, and measures the loss allowance for trade receivables, contract assets and lease receivables at an amount equal to lifetime expected credit losses. For other financial assets, the loss allowance is measured at an amount equal to lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition (stage 2), and otherwise at an amount equal to 12-month expected credit losses (stage 1).

Explain briefly how expected credit losses are determined, distinguishing as necessary between approaches for different categories of financial asset.

HM Treasury has ruled that central government bodies may not recognise stage 1 or stage 2 impairments against other government departments, their executive agencies, the Bank of England, Exchequer Funds, and Exchequer Funds' assets where repayment is ensured by primary legislation. [The entity] therefore does not recognise loss allowances for stage 1 or stage 2 impairments against these bodies.

For financial assets that have become credit impaired since initial recognition (stage 3), expected credit losses at the reporting date are measured as the difference between the asset's gross carrying amount and the present value of the estimated future cash flows

discounted at the financial asset's original effective interest rate. Any adjustment is recognised in profit or loss as an impairment gain or loss.

1.28 Financial liabilities

Financial liabilities are recognised when [the entity] becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Financial liabilities are de-recognised when the liability has been extinguished – that is, the obligation has been discharged or cancelled or has expired.

Omit any of the following where not relevant.

1.28.1 Financial liabilities at fair value through profit and loss

Derivatives that are liabilities are subsequently measured at fair value through profit or loss. Embedded derivatives that are not part of a hybrid contract containing a host that is an asset within the scope of IFRS 9 are separately accounted for as derivatives only if their economic characteristics and risks are not closely related to those of their host contracts, a separate instrument with the same terms would meet the definition of a derivative, and the hybrid contract is not itself measured at fair value through profit or loss. [Disclose how fair value is determined].

Provide brief details of any other financial liabilities in this category.

Omit the following where not relevant.

[The entity] has irrevocably designated the following financial liabilities as measured at fair value through profit or loss in accordance with IFRS 9 paragraph 4.2.2:

Specify financial liabilities and the reason for designation.

1.28.2 Other financial liabilities

After initial recognition, all other financial liabilities are measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the life of the asset, to the amortised cost of the financial liability. In the case of DHSC loans that would be the nominal rate charged on the loan.

NHS providers:

[1.29 Public Dividend Capital (PDC) and PDC dividend

Public dividend capital is a type of public sector equity finance, which represents the Department of Health and Social Care's investment in the trust. HM Treasury has determined that, being issued under statutory authority rather than under contract, PDC is not a financial instrument within the meaning of IAS 32.

At any time, the Secretary of State can issue new PDC to, and require repayments of PDC from, the trust. PDC is recorded at the value received.

An annual charge, reflecting the cost of capital utilised by the trust, is payable to the Department of Health and Social Care as PDC dividend. The charge is calculated at the real rate set by the Secretary of State with the consent of HM Treasury (currently 3.5%) on the average relevant net assets of the trust. Relevant net assets are calculated as the value of all assets less all liabilities, except for:

donated and grant funded assets

charitable funds

average daily cash balances held with the Government Banking Service (GBS) and National Loans Fund (NLF) deposits (excluding cash balances held in GBS accounts that relate to a short-term working capital facility)

approved expenditure on COVID-19 capital assets

assets under construction for nationally directed schemes

any PDC dividend balance receivable or payable.

The average relevant net assets are calculated as a simple average of opening and closing relevant net assets.

In accordance with the requirements laid down by the Department of Health and Social Care, the dividend for the year is calculated on the actual average relevant net assets as set out in the “pre-audit” version of the annual accounts. The dividend thus calculated is not revised should any adjustment to net assets occur as a result the audit of the annual accounts. The PDC dividend calculation is based upon the trust’s group accounts (i.e. including subsidiaries), but excluding consolidated charitable funds.]

1.30 Foreign currencies

[The entity]’s functional currency and presentational currency is pounds sterling, and figures are presented in thousands of pounds unless expressly stated otherwise.

Transactions denominated in a foreign currency are translated into sterling at the spot exchange rate on the date of the transaction. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the spot exchange rate on 31 March.

Exchange gains and losses on monetary items (arising on settlement of the transaction or on retranslation at the Statement of Financial Position date) are recognised in the Statement of Comprehensive [Income / Net Expenditure] in the period in which they arise.

1.31 Third party assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since [the entity] has no beneficial interest in them. Details of third-party assets are given in [a note] to the accounts.

1.32 Losses and Special Payments (where reported in financial statements)

Losses and special payments are items that Parliament would not have contemplated when it agreed funds for the health service or passed legislation. By their nature they are items that ideally should not arise. They are therefore subject to special control

procedures compared with the generality of payments. They are divided into different categories, which govern the way that individual cases are handled.

Losses and special payments are charged to the relevant functional headings in expenditure on an accruals basis, including losses which would have been made good through insurance cover had [the entity] not been bearing its own risks (with insurance premiums then being included as normal revenue expenditure).

1.33 Gifts

Gifts are items that are voluntarily donated, with no preconditions and without the expectation of any return. Gifts include all transactions economically equivalent to free and unremunerated transfers, such as the loan of an asset for its expected useful life, and the sale or lease of assets at below market value.

1.34 IFRS Standards that have been issued but have not yet been adopted

The DHSC GAM does not require the following IFRS Standards and Interpretations to be applied in 2021-22. These Standards are still subject to HM Treasury FReM adoption.

IFRS 16 Leases - The Standard is effective 1 April 2022 as adapted and interpreted by the FReM.

IFRS 17 Insurance Contracts – The Standard is effective for accounting periods beginning on or after 1 January 2023. IFRS 17 is yet to be adopted by the FReM which is expected to be from the 1 April 2025. Early adoption is not permitted.

[Where it is practicable, provide an assessment of the impact of Standards that have not yet been adopted.]

Chapter 5 Annex 2: Consultancy definition

- 5.281 The detail provided below is taken from the [Cabinet Office guidance regarding the definition of consultancy](#) published on gov.uk.
- 5.282 The provision to management of objective advice and assistance relating to strategy, structure, management or operations of an organisation in pursuit of its purposes and objectives. Such assistance will be provided outside the 'business-as-usual' environment when in-house skills are not available and will be of no essential consequence and time-limited. Consultancy may include the identification of options with recommendations, or assistance with (but not delivery of) the implementation of solutions.

Finance Consultancy	The provision of objective finance advice including advice relating to corporate financing structures, accountancy, control mechanisms and systems. This includes both strategic and operational finance.
IT/IS Consultancy	The provision of objective IT/IS advice including that relating to IT/ IS systems and concepts, strategic IT/IS studies and development of specific IT/IS projects. Advice related to defining information needs, computer feasibility studies, making computer hardware evaluations and to e-business should also be included.
Strategy Consultancy	The provision of strategic objective advice including advice relating to corporate strategies, appraising business structures, Value for Money reviews, business performance measurement, management services, product or service design, and process and production management.
Legal Consultancy	The provision of external legal advice and opinion including advice in connection with the policy formulation and strategy development particularly on commercial and contractual matters.
Property & Construction Consultancy	Provision of specialist advice relating to property services and estates including portfolio management, design, planning and construction, tenure, holding and disposal strategies.
Human Resource, Training & Education Consultancy	The provision of objective HR advice including advice on the formulation of recruitment, retention, manpower planning and HR strategies, and advice and assistance relating to the development of training and education strategies.
Technical Consultancy	The provision of technical advice including the provision of technical studies, prototyping and technical demonstrators, concept development, project and task based technical advice.

Marketing & Communications Consultancy	The provision of objective marketing and communications advice including advice on the development of publicising and the promotion of the Department's Business Support programmes, including advice on design, programme branding, media handling, and advertising.
Organisation & Change Management Consultancy	Provision of objective advice relating to the strategy, structure management and operations of an organisation in pursuit of its purposes and objectives. Advice related to long range planning, re-organisation of structure, rationalisation of services, general business appraisal of organisation should also be included.
Procurement Consultancy	The provision of objective procurement advice including advice in establishing procurement strategies.
PPM Consultancy	The provision of advice relating to ongoing programmes and one-off projects. Advisory support in assessing, managing and or mitigating the potential risks involved in a specific initiative; work to ensure expected benefits of a project are realised.

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