Department of Health

DH Group Accounting Manual 2016-17

Additional Guidance v4

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Prepared by:

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Contact:

Graham Dann
Finance Directorate – Accounts
Department of Health
Room 2S14, Quarry House
Leeds
LS2 7UE
DH_GAM@dh.gsi.gov.uk

Ali-Hassan Aslam
Finance Directorate – Accounts
Department of Health
Room 2S14, Quarry House
Leeds
LS2 7UE

Introduction

1. The *Department of Health Group Accounting Manual 2016-17* (*GAM*) was published in September 2016. The *GAM* sets the accounting policies to be followed by members of the Department's Consolidation Group and provides principles-based guidance to NHS bodies on how to prepare and complete their annual reports[1] and accounts.

2. This FAQ guidance updates the *GAM*, is mandatory, and must be treated as having the same status as the *GAM* itself.

3. This document will be updated as additional FAQs arise, so that all additional guidance for 2016-17 will be contained within a single document.

[1] NHS foundation trusts follow the *NHS Foundation Trust Annual Reporting Manual 2016-17* for the purpose of preparing annual reports.

FAQ 1 – Changes in Discount Rates at 31 March 2017

4. As advised in the *DH Group Accounting Manual 2016-17* (Chapter 6 Annex 2), Treasury discount rates are revised each year and are notified by means of a PES paper.

5. PES (2016) 10 *Discount Rates for Post-Employment Benefits and General Provisions: Announcement of Rates* was issued on 2 December 2016. Key points are summarised below and, by issue of this FAQ, Chapter 6 Annex 2 of the *GAM* is updated in accordance with the following text.

General Provisions

6. The general provisions discount rates are used to discount future cash flows related to provisions recognised in accordance with IAS 37.

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

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

   - ***Medium-term rate:*** A real 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 real discount rate to be applied to the cash flows of general provisions in a time boundary exceeding 10 years from the Statement of Financial Position date.

8. The real discount rates to be applied on 31 March 2017 to determine the net present values of provisions are:

Rate	**Real Rate**
Short-term	**Minus** 2.70% (previous rate: -1.55%)
Medium-term	**Minus** 1.95% (previous rate: -1.00%)
Long-term	**Minus** 0.80% (previous rate: -0.80%)

9. 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. Thus, to arrive at the SoFP balance for a provision with expected cash flows occurring in each year for 20 years, each of the three rates will need to be applied. It would not be appropriate to discount cash flows at the long-term rate in the first 10 years simply because the liability is not expected to be wholly discharged until year 20.

Post-Employment Benefits Provisions

10. The real discount rate applicable on 31 March 2017 is 0.24% (the previous year's rate was 1.37%).

11. The rate is applicable for all provisions for continuing obligations arising from previous employment service.

Accounting – Both Categories of Discount Rate

12. The real discount rate is used where expected cash flows are expressed in current prices, i.e. those cash flows have not been uplifted for expected future inflation.

13. Accounting impacts: an increase in the discount rate for provisions results in a lower carrying value at the year end, with a consequent credit to the revenue account in-year, and vice versa.

Type of provision	Movement in discount rate compared to prior year	Impact on carrying amount and SoCNE/SoCI
Short-term (general)	Decrease (i.e. increase in negative rate)	Increase carrying amount of provision at 31 March 2017. Debit to revenue account.
Medium-term (general)	Decrease (i.e. increase in negative rate)	Increase carrying amount of provision at 31 March 2017. Debit to revenue account.
Long-term (general)	No change.	No impact.
Post-employment	Decrease (i.e. decrease in positive rate)	Increase carrying amount of provision at 31 March 2017. Debit to revenue account.

Financial instruments

14. The financial instrument discount rate is used for some financial instruments in accordance with the requirements of the Financial Reporting Manual.

15. The *FReM* states (Table 6.2):

> *Where future cash flows are discounted to measure fair value, entities should 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.*

16. The real financial instrument discount rate to be applied at 31 March 2017 is 0.7% (previously 0.7%). The rate as applied to flows expressed in current prices is RPI + 0.7%, where the financial instrument is index linked to RPI. Where the financial instrument is not linked to an inflationary index, and a nominal rate is required, 3.7% may be used.

FAQ 2 – Injury Costs Recovery revenue – probability of non-recovery

17. Paragraphs 5.10 – 5.11 of the *GAM* describe the treatment of Injury Costs Recovery (ICR) revenue.

18. When estimating ICR revenue, the *GAM* instructs NHS providers to include an amount within the provision for impairment of receivables to reflect income that is not expected to be received. Each year, the Compensation Recovery Unit (CRU) advises a percentage probability of not receiving the income.

19. The updated figure for 2016-17 is 22.94%. By issue of this FAQ, paragraphs 5.10 – 5.11 of the *GAM* are amended to reflect this figure.

Application

20. If it is material, 22.94% of accrued ICR revenue should be included within the provision for impairment of receivables. However, 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.

21. As the NHS Injury Cost Recovery Scheme derives from statute rather than contracts, it does not fall within the scope of financial instruments and this provision does not need to comply with the “objective evidence of impairment” requirement when considering impairment of financial assets under IAS 39.

FAQ 3 – Pooled budgets and the Better Care Fund

22. Chapter 4 Annex 1 of the 2016-17 *GAM* provides guidance on accounting for arrangements under the Better Care Fund (BCF). Chapter 4 Annex 2 provides further guidance on accounting for other pooled budget arrangements.

23. During consultation on the draft 2016-17 *GAM*, feedback was received that the guidance on the Better Care Fund did not reflect the reality of actual BCF arrangements that were in place. In particular, the presumption in the guidance that BCF arrangement would usually constitute joint operations was not borne out.

24. Although the existing guidance was retained for the initial publication of the 2016-17 *GAM*, improved guidance has since been prepared for the 2017-18 *GAM*. This guidance applies to all pooled budgets, including arrangements under the Better Care Fund. The revised text does not change the fundamental accounting principles that apply, but better reflects the various contractual arrangements set out in pooled budget arrangements and aims to provide clearer, simpler guidance. In particular, it no longer assumes that pooled budget arrangements will constitute joint operations, and provides enhanced guidance on the application of IAS 18 *Revenue* to identify where an entity is acting as an agent.

25. As this guidance is now ready, it is being introduced with immediate effect. By issue of this FAQ, Chapter 4 Annexes 1 and 2 of the 2016-17 *GAM* are withdrawn and replaced with a single annex, as set out below.

Chapter 4 Annex 1 – Accounting for Pooled Budgets and Joint Arrangements

Introduction

4A1.1. CCGs and NHS providers are increasingly experiencing a wide variety of healthcare commissioning arrangements. To date, such arrangements typically involve two or more CCGs, or combinations of CCGs and local authorities in co-commissioning arrangements, lead commissioning and pooled budgets. Since 2015, many of these arrangements have been established as part of the Better Care Fund initiative.

4A1.2. In accounting for such arrangements, entities must follow the relevant accounting standards, subject to any adaptations and interpretations set out in this manual.

4A1.3. This annex provides supplementary guidance, outlining typical arrangements that exist in the NHS and illustrating how the relevant accounting principles apply. 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. This will aid in agreement of balances exercises and successful elimination of intra-group transactions and balances.

The Better Care Fund (BCF)

4A1.4. The Better Care Fund initiative was announced in the 2013 Spending Review, and required CCGs and local authorities to pool funding for the delivery of integrated health and social care. As a result, partnerships of CCGs and local authorities entered into agreements under section 75 of the *NHS Act 2006*, overseen by local Health and

Wellbeing Boards. These agreements established pooled budgets to enable integrated commissioning of care from providers. These budgets have been in place since 2015-16.

4A1.5. Where CCGs receive ring-fenced BCF allocations, it is a requirement that they enter into pooled budgets with local authorities, set up under section 75 arrangements. NHS England 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

4A1.6. Additional information and operating guidance on BCF is available on the NHS England website[2]. This includes a template section 75 agreement[3] and advice on the drafting of such agreements.

4A1.7. 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

4A1.8. A joint commissioning arrangement or pooled budget may constitute a joint arrangement, as defined in IFRS 11 *Joint Arrangements*. 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*.

4A1.9. 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*.

4A1.10. The disclosure requirements for parties with joint control of a joint arrangement are set out in IFRS 12 *Disclosure of Interests in Other Entities*.

4A1.11. Where an entity acquires an interest in a joint operation in which the activity constitutes a business, IFRS 3 *Business Combinations* is relevant.

4A1.12. 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. This is addressed in IAS 18 *Revenue* (including the Illustrative Examples).

4A1.13. 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

4A1.14. 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.

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[2] https://www.england.nhs.uk/ourwork/part-rel/transformation-fund/bcf-plan/

[3] https://www.england.nhs.uk/ourwork/part-rel/transformation-fund/bcf-plan/risk-sharing/

4A1.15. 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. 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.

4A1.16. 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. e 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.

4A1.17. 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. 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. Members must not record transactions with the pool as though it were a separate entity.

4A1.18. 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. 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.

4A1.19. 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

4A1.20. 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.

4A1.21. 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. 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.

4A1.22. 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

4A1.23. 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. 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.

4A1.24. 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.

4A1.25. 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.

4A1.26. 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. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement.

4A1.27. 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.

4A1.28. 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 IAS 18 to consider whether the parties are in an agency relationship.

4A1.29. This approach to categorising collaborative working arrangements is summarised in figure 1 below.

Joint arrangements

4A1.30. There are two types of joint arrangements: 'joint operations' and 'joint ventures'.

4A1.31. 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. 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. 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.

4A1.32. 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. 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

4A1.33. Where a collaborative working arrangement does not constitute a joint arrangement, the participants will need to consider whether they are in an agency relationship.

4A1.34. 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 IAS 18, which defines the roles of principal and agent.

4A1.35. An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Where an entity does not have this exposure, it is acting as an agent on behalf of the principal.

4A1.36. Participants of a pooled budget must therefore agree whether the host is acting as an agent or principal. This is particularly important for the purposes of agreement of balances and elimination of intra-group transactions. The ultimate provider of services must also understand this relationship, as it will determine whom they consider to be their customer.

4A1.37. 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.

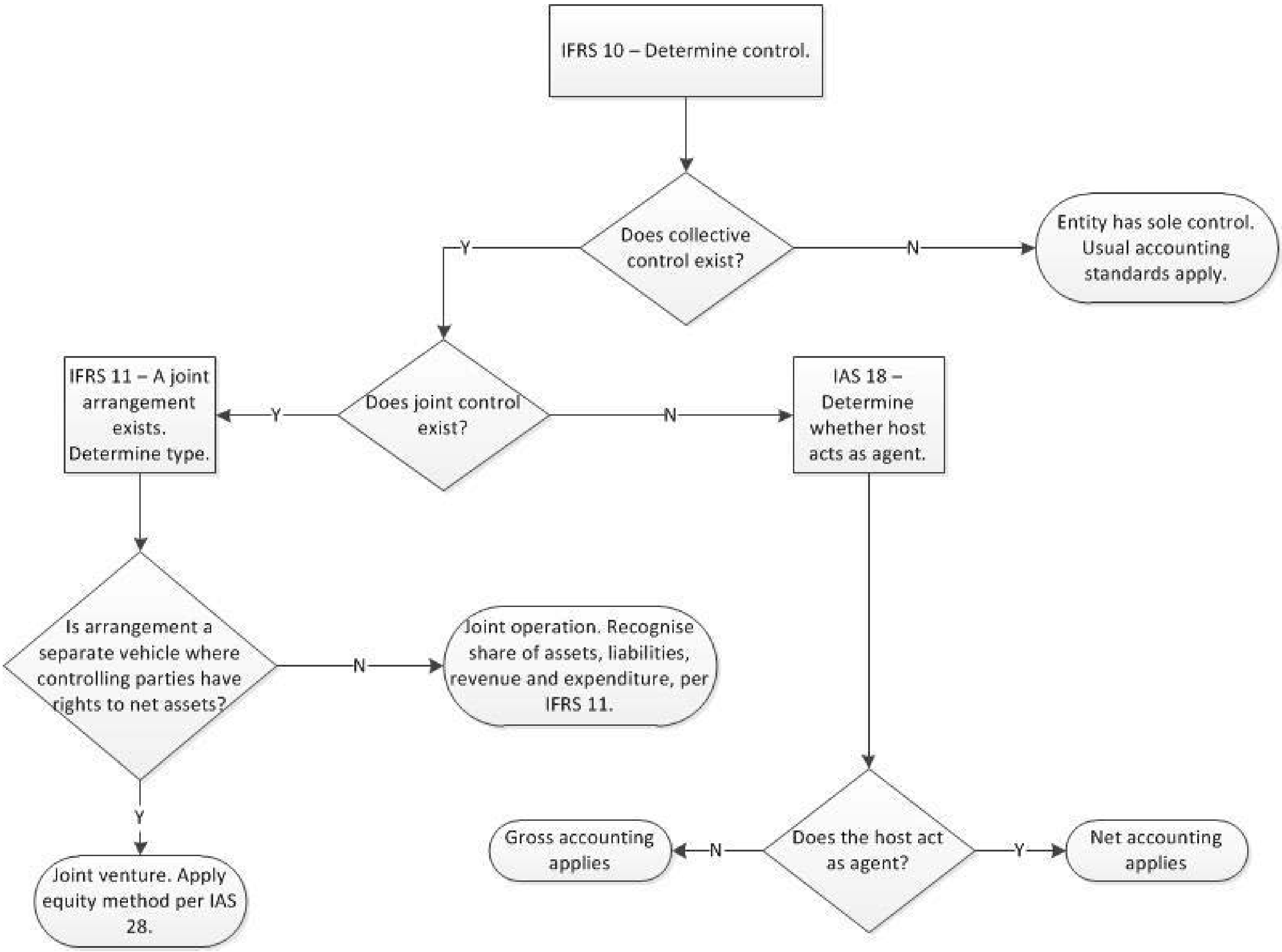
4A1.38. In an agency relationship, the host does not treat amounts collected on behalf of the principal as revenue. These amounts simply pass through the agent, and are accounted for on a net basis.

4A1.39. 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.

4A1.40. 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

4A1.41. 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

4A1.42. 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.

4A1.43. Where a joint venture exists, NHS bodies and DH ALBs (other than DH agencies) must account for their interest as an investment using the equity method, as set out in IAS 28. Core DH and DH agencies must apply IAS 28 in accordance with the adaptation set out in *Chapter 3 Annex 1: Standards and applicability to the Departmental Group*.

Joint operations

4A1.44. 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.

4A1.45. An entity’s share of the assets, liabilities, revenue and expenditure of the joint operation will be determined by the agreement establishing the arrangement.

4A1.46. 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.

4A1.47. The effect of this is essentially the same as for net accounting arrangements, as described below. 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. 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.

4A1.48. 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

4A1.49. As described above, where joint control does not exist and the host of a pooled budget is acting as an agent, net accounting applies. 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.

4A1.50. Each entity must account for its share of the transactions as though it were transacting directly with the ultimate counterparty. This applies to expenditure and revenue (although a typical co-commissioning arrangement will not generate revenue) with providers (including for agreement of balances purposes). However, 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.

4A1.51. 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.

4A1.52. As an example, consider a pooled budget arrangement between a CCG and a local authority, where the local authority acts as host on an agency basis. The CCG 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.

4A1.53. The first transaction is the payment of £4m from the CCG to the local authority. Initially, the CCG 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 CCG. Together with its own £6m contribution, the local authority now holds a cash pot of £10m.

4A1.54. 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 CCGs share is treated as reducing the local authority's payable back to the CCG. The CCG, 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 CCG as customers.

4A1.55. 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 CCG accrue a further £0.6m and £0.4m expenditure with providers respectively. Additionally, the CCG recognises an accruals payable to the local authority. The local authority recognises a corresponding receivable from the CCG, 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.

4A1.56. When the local authority eventually settles the accrued amount in cash, it offsets its receivable from the CCG against the payable it raised upon receipt of cash into the pooled budget, reflecting the fact that this cash has now been used. The CCG mirrors this offsetting in its own accounts.

4A1.57. These transactions are illustrated in figure 2 below.

4A1.58. 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. Entities must consider the substance of each element of the arrangement and note the identity of the ultimate commissioner or provider. 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

CCG contributes cash to pooled budget (hosted by LA)

CCG		**LA**	
Dr Receivable from LA	4.0	Cr Payable to CCG	4.0
Cr Cash	4.0	Dr Cash	4.0

LA contributes cash to pooled budget

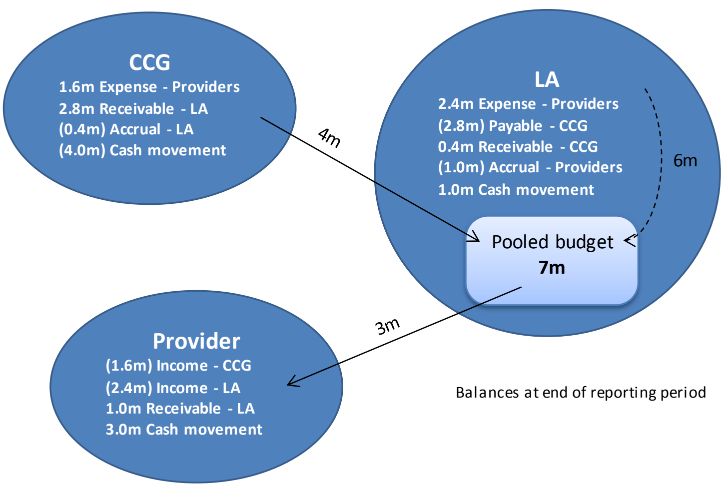
No accounting entries.

LA settles invoices for services from providers

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

Accrual for uninvoiced services from providers

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



Other pooled budgets – gross accounting

4A1.59. Where joint control does not exist and the host of a pooled budget is acting as a principal, gross accounting applies. 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.

4A1.60. Each entity must account for its direct dealings with other parties to the pool as though no other party is involved. 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.

4A1.61. Consider the same example as above, with the local authority now acting as principle. The first transaction is still the contribution by the CCG of £4m to the pooled budget, which it still treats as a receivable from the local authority – effectively a prepayment.

4A1.62. The local authority commissions services from providers in order, in turn, to provide services to the CCG. 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 CCG and reduces its payable to the CCG. The providers recognise all of their £3m income as being from the local authority.

4A1.63. 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 CCG and reduces its payable to the CCG accordingly.

4A1.64. The CCG 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.

4A1.65. These transactions are illustrated in figure 3 below.

4A1.66. This approach reduces the need for information sharing, as each entity only recognises amounts in relation to the entities with which it deals directly. However, the timing of expenditure recognition by the CCG is still determined by the actual delivery of services by the ultimate provider.

4A1.67. Where a gross accounting arrangement exists, this may have the effect of grossing up transactions in the DH group account. This will occur, for instance, where a CCG recognises expenditure with a local authority for services that are ultimately delivered by an NHS provider. In this case, the group account will include both the expenditure and income arising from this, without any elimination. 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

CCG contributes cash to pooled budget (hosted by LA)

CCG		**LA**	
Dr Receivable from LA	4.0	Cr Payable to CCG	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 CCG

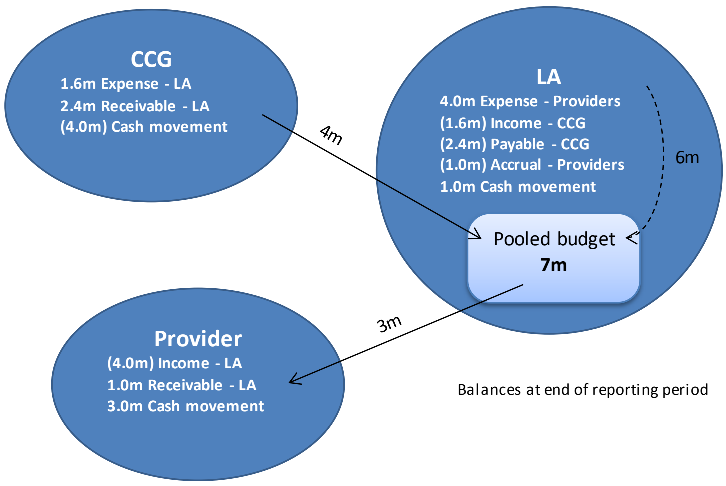
CCG		**LA**	
Dr Services from LA	1.2	Cr Income from CCG	1.2
Cr Receivable from LA	1.2	Dr Payable to CCG	1.2

Accrual for uninvoiced services from providers

		LA	
		Dr Services from providers	1.0
		Cr Accruals with provider	1.0

LA recognises income from CCG

CCG		**LA**	
Dr Services from LA	0.4	Cr Income from CCG	0.4
Cr Receivable from LA	0.4	Dr Payable to CCG	0.4



Cash management

4A1.68. The principles set out in HM Treasury's Managing Public Money apply to cash management of pooled budgets.

4A1.69. 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.*

4A1.70. CCGs operate on the Government Banking Service platform, whereas local authorities have separate banking arrangements. Therefore, where a local authority is host to a pooled budget, CCGs must not transfer cash to the local authority in any month which precedes the operational requirement to expend the cash with service providers. Any other payment arrangement, such as quarterly transfer, will not be appropriate.

4A1.71. Therefore, when transferring cash, the CCG must ensure that the host has provided verifiable evidence of the requirement to expend the cash with service providers in the month of transfer.

4A1.72. Where a CCG is hosting a pooled budget the existing Government Banking Service account must be used for all BCF receipts and payments. A CCG must not use any other banking facility for BCF related transactions.

4A1.73. HM Treasury's prohibition of drawing down cash in advance of need is particularly relevant to the management of pooled budgets. 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. 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.

4A1.74. 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.

BCF Cash Forecasting/Drawdown – Guidance for CCGs

4A1.75. The monthly CCG cash forecast/drawdown elements that relate to BCF will require separate disclosure on the CFF1 forms.

4A1.76. The following totals will require disclosure as part of the monthly CFF1 submission:

- total annual BCF cash plan with monthly phasing
- drawdown request for cash transfer to BCF pooled budgets hosted by local authorities
- drawdown request for payment to providers under CCG hosted BCF pooled budget.

Drawdown request for BCF cash payments not under pooled budget arrangements

4A1.77. CCG monthly BCF annual cash drawdown requests will be reviewed centrally and via regional teams against Revenue Resource Limits and challenged where necessary. This will help ensure that BCF drawdown requests are not in advance of monthly operational need to pay providers.

Other reporting requirements

4A1.78. 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. The extent of any disclosure required will depend on materiality and on the accounting standards applied. Either way, working papers will be needed to support accounts entries that result from pooled budget activities.

4A1.79. 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.

4A1.80. 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 CCGs 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.

4A1.81. CCGs need to fulfil cash management requirements, and so will need reports from host bodies on a monthly basis.

4A1.82. 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. 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.

4A1.83. Parties to a pooled budget must therefore agree appropriate reporting arrangements.

New Models of Care

4A1.84. 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 involve collaborative working agreements that may constitute joint arrangements and may involve separate vehicles.

4A1.85. 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.

FAQ 4 – Valuation issues – fair value

26. IFRS 13 *Fair Value Measurement* came into effect in the public sector in the 2015-16 financial year. The standard was adopted in full, but related adaptations to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* were introduced to limit the circumstances under which non-current assets would be measured at fair value. These adaptations are set out in Chapter 3 Annex 1 of the 2016-17 *GAM*, and have the effect that assets that are held for their service potential and are in use should be measured at current value in existing use. The application of this is described in more detail from paragraph 6.7 of the 2016-17 *GAM*.

27. For most assets, this resulted in no change in valuation methodology. However, it is important to note that, for assets that are held for their service potential and are in use, these methodologies now provide estimates of current value in existing use, not of fair value.

28. Chapter 6 Annex 3 of the 2016-17 *GAM* provides more detailed guidance on valuation issues. As the text of this annex predates the introduction of IFRS 13, it includes some references to 'fair value' that are no longer valid. As set out above, these should now be references to 'current value in existing use'.

29. By issue of this FAQ, the following amendments are made to Chapter 6 Annex 3 to correct these references:

Chapter 6 Annex 3 - Valuation Issues

2) Assets which are held for their service potential (i.e. operational assets used to deliver either front line services or back office functions) should be measured at their current value in existing use. For "in use" non-specialised property assets**,** ~~fair value~~ **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).

6) 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. 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 is available on https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/191488/Green_book_supplementary_guidance_asset_valuation.pdf.

11) For "in use" non-specialised property assets ~~fair value~~ **current value in existing use** should be interpreted as market value for existing use. In the RICS Red Book, this is defined as "Existing Use Value" (EUV) (FReM table 6.2).

FAQ 5 – Immaterial prior period errors

30. This FAQ addresses the accounting in the current financial year to correct errors in prior periods that are not considered to be material.

31. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires the retrospective correction of material prior period errors by restatement of the comparative amounts for the prior period(s) presented in which the error occurred. By implication, if such an error is not considered to be material, it is not necessary to restate in this way. However, to ensure that the reported financial position of the entity in the current period is free from error, it is necessary to make correcting entries in the current financial year.

Parliamentary accountability

32. The financial outturn of all DH group bodies forms part of the consolidated outturn that DH reports to Parliament. As Parliamentary control over public spending is exercised on an annual basis, any spending that has not been brought to account in a previous financial year must be accounted for in the current financial year. Where a department restates prior year expenditure in its consolidated accounts, a mechanism exists to ensure that the budgetary impact of this is presented in the current year and does not bypass the Parliamentary control process.

33. Where accounts are not restated, and prior period errors are corrected in the current year, it is important that any budgetary impact of this forms part of the budgetary outturn for the current year. In particular, income and expenditure amounts that should have been reported in a prior year must be reported as such in the current year. The net impact of any such correction may not be taken directly to retained earnings, as the related income and expenditure would not be reported to Parliament.

Application

34. Where a DH group body 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. It may not take income and expenditure adjustments directly to retained earnings.

FAQ 6 – Sustainability and Transformation Fund

35. A £1.8 billion Sustainability and Transformation Fund (STF) has been made available to NHS providers in 2016-17, linked to the achievement of financial controls and performance targets. Access to both the general and targeted elements of STF will be unlocked as NHS providers meet their financial control totals. At each quarter, a minimum of 70% of allocated funding will be released upon achievement of the financial control total, with up to a further 30% released where a provider also meets its agreed trajectories for delivery of operational standards.

36. This FAQ provides guidance on accounting for STF receipts in Q3 accounts. Further guidance on accounting for STF at year-end will be issued in due course.

Q3 accounting entries

37. STF payments for 2016-17 Q3 and Q4 will be made by NHS England. Amounts received by NHS providers must be reported as a separate line of 'other operating income'. In summarisation schedules, the relevant line is described as 'Sustainability and Transformation Fund income'.

38. By 31 December 2016, cash payments will have been made to NHS providers in respect of STF income earned for Q1 and Q2. However, cash payments in respect of Q3 will not be made until February/March 2017. Where an NHS provider has earned its STF income for Q3, it must recognise accrued income for this in its Q3 accounts. Where the provider has failed to earn STF income for Q3, it will simply recognise any cash income already received for Q1 and Q2. The Q3 accounting entries for NHS providers and NHS England are shown below:

<u>NHS providers</u>

Dr Cash	£value of Q1 and Q2 payments
Dr Accrued income	£value of Q3 payment (where relevant)
Cr STF income	£value of Q1 to Q3 payments

<u>NHS England</u>

Dr Expenditure	£value of Q1 to Q3 payments
Cr Cash	£value of Q1 and Q2 payments
Cr Accruals	£value of Q3 payments

39. STF payments are within the scope of agreement of balances exercises. NHS providers must record NHS England (CBA033) as the counterparty for these transactions.

FAQ 7 – CQUIN 2017-18 – Risk reserve element

40. This FAQ addresses the potential impact of 2017-18 CQUIN payments on 2016-17 accounts.

41. The Commissioning for Quality and Innovation (CQUIN) scheme enables NHS providers to earn up to 2.5% of annual contract value if they deliver objectives set out in the scheme. As part of the 2017-18 scheme, 0.5% of this value will form part of a ‘risk reserve’, which will only be released for spending by individual providers once it is demonstrated that the healthcare system is delivering its control total at a national level.

42. The initial payment of this element of CQUIN from CCGs to providers will be made at the beginning of 2017-18 to those providers that met their control totals in 2016-17. These providers will be required to hold these funds in reserve until release is authorised, as detailed above. For those providers that do not meet their control totals in 2016-17, the funds will be held by the relevant CCG prior to potential release.

Recognition of income

43. NHS providers will treat CQUIN payments received as revenue from patient care activities. The fact that payment of the risk reserve element of 2017-18 CQUIN depends on the delivery of 2016-17 control totals may suggest that confirmation of this delivery should be taken as the recognition point for the income, and that this income would therefore be accrued in 2016-17. However, this is not the basis on which the income is earned or should be recognised.

44. CQUIN represents a premium payment for quality objectives achieved as part of the delivery of healthcare services for the contract year to which payment relates. The requirement to meet 2016-17 control totals in order to receive 2017-18 CQUIN payments is a precondition on eligibility for these payments, and is not the purpose of the payments nor what the provider delivers to earn them. Receipt of 2017-18 CQUIN payment must therefore be recognised as 2017-18 income.

Application

45. NHS providers must not accrue for 2017-18 CQUIN income in 2016-17. Confirmation that 2016-17 control totals have been met is not sufficient to recognise income in respect of 2017-18 CQUIN, and does not constitute an adjusting event after the reporting period for 2016-17.

FAQ 8 – HMT Financial Reporting Manual – December 2016 update

46. HM Treasury publishes the *Financial Reporting Manual* (*FReM*), on which the *DH GAM* is based. Each December, HMT publishes the *FReM* for the next accounting year, as well as updating the *FReM* for the current year as required.

47. HMT published the 2017-18 *FReM* and an update to the 2016-17 *FReM* on 16 December 2016. As some sections of text in the *DH GAM* are based directly on the *FReM*, it is therefore appropriate to update them similarly where needed.

48. By issue of this FAQ, the amendments set out below are made to Chapters 2 and 3 of the 2016-17 *GAM*. These relate to minor clarifications of the requirements for the Performance Report and Accountability Report, and to previously omitted interpretations of IAS 20 and IAS 24.

49. There are no differences between the 2017-18 *FReM* and the updated 2016-17 *FReM*.

Chapter 2 – The Annual Report

Performance Report

2.14. 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
- the key issues and risks that could affect the entity in delivering its objectives
- an explanation of the adoption of the going concern basis where this might be called into doubt (e.g. by the issue of a report under Section 30 of the *Local Audit and Accountability Act 2014*[4] for a CCG or an NHS provider), and
- a performance summary.

Performance analysis

2.15. The purpose of the performance analysis is for entities to ~~report on their most important performance measures~~ **provide a detailed performance summary of how their entity measures its performance, more detailed integrated performance analysis** and ~~also provider longer~~ **long** term expenditure trend analysis where appropriate.

[4] http://www.legislation.gov.uk/ukpga/2014/2/section/30/enacted

The Accountability Report

Scope of the Accountability Report

2.19. 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 should clearly be identified as audited within the Accountability Report:

- **disclosures on Parliamentary accountability, as detailed in paragraph 2.59**
- 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.

2.20. The Accountability Report is required to have three sections:

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

2.21. DH group bodies must provide a short overview of these sections and explain how they contribute to the entity’s accountability to Parliament (where relevant) and best practice with corporate governance norms and codes.

Remuneration and staff report

Compensation on early retirement or for loss of office

2.47. 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 should 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).

Parliamentary accountability and audit report

2.59. The Parliamentary Report will contain disclosures on the following (as outlined in the *FReM* Chapter 3):

Requirement	Sector			
	DH	**DH ALBs (inc NHS England)**	**NHS trusts**	**CCGs**
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	Optional
An explanation of the regularity of expenditure~~, including long-term expenditure trends~~	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	Optional
Notation of gifts made over a value of £300k (per *Managing Public Money* annex 4.12 – note these require HMT approval)**	Mandatory	Mandatory	Optional	Optional
Analysis of material (>£1m) fees and charges income. This should 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	Optional
Audit certificate and report***	Mandatory	Mandatory	Mandatory	Mandatory

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

Salaries and allowances

Salary includes:

- all amounts paid or payable by the entity including recharges from any other entity
- 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.

Chapter 3 Annex 1: Standards and applicability to the DH group

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
International Accounting Standards (IAS)	
IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* The objective of IAS 20 is to prescribe the accounting treatment for government grants and the disclosures about other government assistance. Further details in the *GAM*: 5.16 to 5.20 Also see SIC 10 *Government Assistance – No Specific Relation to Operating Activities* IFRIC 12 *Service Concession Arrangements*	Applies in full with the following interpretations: 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. 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, e.g. 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. 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. **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 DH and HM Treasury.** Note: Parliamentary Supply does not fall within the meaning of government grants.

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
IAS 24 Related Party Disclosures 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. Further details in the GAM: 7.28 to 7.32	Applies in full with the following interpretations: **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 2.24).** DH group bodies must disclose the Department of Health as the parent department; a note of the main 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. 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. DH group bodies must disclose as a related party all linked charities (unless formally consolidated) including the nature of the relationship, and details of material transactions between the body and the linked charity. DH group bodies should note the amendment to IAS 24 contained within Annual Improvements to IFRS 2010-12, relating to key management personnel services provided by another entity, which may be of particular interest to organisations which have buddying/support arrangements with other organisations.

FAQ 9 – Remuneration report tables NEW

50. This FAQ makes minor changes to the remuneration report guidance.

Real increase in CETV

51. The real increase in CETV is intended to reflect the amount of any increase in Cash Equivalent Transfer Value of a pension that is effectively funded by the employer. The figure calculated should therefore exclude the effects of inflation and of contributions by the employee.

52. Paragraph 7 of Chapter 2 Annex 2 to the 2016-17 *DH GAM* stated that 'It *takes account of* the increase in accrued pension due to inflation, contributions paid by the employee ...' Although intended to be consistent with the above requirement, this wording could be misconstrued to imply that the effects of inflation and employee contributions are included in the calculation.

53. The wording used in the Civil Service Pensions Employer Pension Guide in respect of Civil Service Pensions uses the phrase 'does not include' instead of 'takes account of', and this more clearly reflects how the real increase in CETV should be calculated. This wording is therefore being adopted in the *DH GAM*.

Golden hellos and compensation for loss of office

54. FAQ 8 introduced changes to the *DH GAM* arising from the December 2016 update to HM Treasury's *FReM*. This included an amendment to Chapter 2 Annex 2 requiring that severance payments be included as part of salary in the 'salary and allowances' table in the remuneration report.

55. As a result of this amendment, a contradiction was introduced, whereby the same annex stated that 'golden hellos and compensation for loss of office' should be excluded from salary.

56. It has since been confirmed with HMT that they consider compensation for loss of office to be the same as severance payments, and that such payments must therefore be included in the reported salary figures. On the same basis, golden hellos must also be included.

57. This has no bearing on the additional disclosure requirements for compensation payments set out in paragraph 2.47 of the 2016-17 *DH GAM*.

58. By issue of this FAQ, the following amendments are made to Chapter 2 Annex 2 address these issues.

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

Salaries and allowances

Real Increase in CETV

7. This reflects the increase in CETV effectively funded by the employer. It ~~takes account of~~ **does not include** the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another scheme or arrangement).and uses common market valuation factors for the start and end of the period.

Content of tables: salaries and allowances

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**
- ~~golden hellos and compensation for loss of office (these are recorded separately), and~~
- any amount paid which the director must subsequently repay.

FAQ 10 – Expected timings of cash flows for provisions NEW

59. This FAQ corrects an error in the guidance on analysing the expected timing of cash flows for provisions.

60. The 2016-17 *DH GAM* required that the expected timing of cash flows be stated in relation to the remainder of the current Spending Review period, then five yearly periods. However, this is no longer the analysis required by HM Treasury.

61. Instead, 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.

62. These periods were already correctly reflected in summarisation schedules and example accounts, and this will therefore not be a change for entities reporting consistently with those.

63. By issue of this FAQ, paragraph 6.84 of the GAM is amended as follows to reflect the correct analysis of expected timing of cash flows, as required by HM Treasury.

~~6.84. Treasury requires the expected timing of cash flows to be stated in relation to the remainder of the current Spending Review period then five yearly periods rather than the time bands required by IAS 37. The relevant periods are given in the example accounts. In addition, the timing of expected cashflows determines the current and non-current split required for the accounts.~~

6.84. **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.**

FAQ 11 – Reversal of impairments NEW

64. This FAQ corrects an error in the guidance on the recognition of an impairment reversal relating to a previous economic benefit/service potential impairment.

65. Paragraph 6.49 of the 2016-17 *DH GAM* instructs users that the amount of the reversal is limited to the amount that restores the asset's carrying value to the value it would otherwise have had if the impairment had not been recognised originally. The guidance incorrectly stated that this reversal amount is recognised in income. Impairment reversals should in fact be recognised in expenditure.

66. By issue of this FAQ, paragraph 6.49 of the GAM is amended to reflect that impairment reversals should be recognised in expenditure.

6.49. Where an economic benefit/service potential impairment is reversed, the amount of the reversal recognised in ~~income~~ **expenditure** is limited to the amount that restores the asset's carrying value to that it would otherwise have had if the impairment not been recognised originally. This is because, for example, if the asset had not been impaired then depreciation based on the original asset value would have been charged to operating expenses in the intervening period, and therefore the impairment reversal needs to take this into account. Any remaining amount of the impairment reversal should be recognised in the revaluation reserve and reported as an item of other comprehensive income.

FAQ 12 – Sustainability and Transformation Fund NEW

67. A £1.8 billion Sustainability and Transformation Fund (STF) has been made available to NHS providers in 2016-17, linked to the achievement of financial controls and performance targets. Access to both the general and targeted elements of STF will be unlocked as NHS providers meet their financial control totals. At each quarter, a minimum of 70% of allocated funding will be released upon achievement of the financial control total, with up to a further 30% released where a provider also meets its agreed trajectories for delivery of operational standards.

68. STF payments for 2016-17 Q4 will be made by NHS England. All STF payments should be recorded for agreement of balances purposes against NHSE CBA033 (Q1 payments were made by DH on behalf of NHSE and Q2 and Q3 payments were made directly by NHSE). Amounts received by NHS providers must be reported in accounts as a separate line of 'other operating income'. In summarisation schedules, the relevant line is described as 'Sustainability and Transformation Fund income'.

69. FAQ 6, issued in December 2016, provided guidance on accounting for STF receipts in Q3 accounts. This FAQ provides guidance on the Q4 process.

Q4 process

70. Cash payments under STF will be made after the submission of final accounts. Therefore, there will be a need to accrue for amounts recognised in relation to STF income.

71. The STF accrual at the financial year end will be based on information collected by NHS Improvement (NHSI) in advance of draft accounts. This information will cover financial outturn and NHS providers' own assessments of whether they have met performance targets over the year. The information will be collected by NHSI on 19th April 2017.

72. At Q4, the full quarter's STF will be paid on delivery of the agreed financial control total. Please note that this approach has been adopted for 2016-17 only, and Q4 summarisation schedules have been updated to reflect this.

73. NHSI will use the information collected on 19th April to undertake incentive / bonus calculations. The value of any incentive / bonuses due to providers will be communicated to them by means of a letter from NHSI by 24th April. Providers must reflect these amounts in their draft accounts submissions, and NHSI will release macro files to populate these amounts into summarisation schedules alongside the letter issued on 24th April. Only bodies in receipt of Q4 STF payments will be eligible for incentive / bonus payments, and all such bodies will receive a letter confirming the amounts, even if the value of their incentive / bonus payment is zero.

74. As full information on STF accruals will not be available when accruals and income statements for agreement of balances are issued on 7th April, no amounts relating to STF should be included in these statements. However, accruals should be recorded in the agreement of balances section of summarisation schedules for the draft Q4 accounts submission due by 9am on 26th April, reflecting the amounts notified on 24th April. These amounts should be recorded in the 'adjusted' column.

75. Providers must notify NHSI immediately if there are any late adjustments from the initial key data information provided or audit adjustments between the draft and final accounts that will affect the performance against their control total and resulting entitlement to STF funding. NHSI need to be notified as soon as possible, with the final deadline being 17th May.

76. Where this results in a provider not being entitled to STF income, these funds will be returned to the bonus pot and may be subject to further redistribution. Providers will be notified individually if they are affected by such a redistribution.

77. Where appeal payments are outstanding at the financial year end, providers should accrue income as necessary in accordance with IAS 18.

FAQ 13 – Interaction between the Sustainability and Transformation Fund (STF) Incentive/Bonus and PDC Dividends NEW

78. This FAQ clarifies the calculation of the PDC dividend for 2016-17 in relation to STF incentive/bonus.

Background

79. A £1.8 billion Sustainability and Transformation Fund (STF) has been made available to NHS providers in 2016-17, linked to the achievement of financial controls and performance targets. FAQ 6, issued in December 2016, provided guidance on accounting for STF receipts in Q3 accounts and FAQ 12, issued in April 2017, provided guidance on the Q4 process.

80. Where providers rejected control totals or have failed to meet their financial controls and performance targets throughout 2016-17 the unearned elements of STF have been placed into a bonus/incentive pot to be allocated out between providers who have met, or exceeded, their control totals.

81. An element of the incentive/bonus calculation is based on the extent to which a provider improves its bottom line over and above the agreed control total. Incentive/bonus elements will be cash paid in 2017-18. Therefore providers entitled to STF incentive/bonus monies will recognise a receivable in their year-end 2016-17 accounts. This receivable will increase the value of average net relevant assets upon which the PDC dividend is calculated, thereby increasing the value of PDC dividend expenditure. If no action were taken, this increase in expenditure would erode performance against control totals, thereby reducing the value of STF incentive/bonus due and reducing the PDC dividend payable in perpetuity.

Clarification on calculation of PDC dividend

82. The Department of Health PDC and Dividends Policy (last updated October 2015) sets out how NHS providers should calculate their PDC dividend expense. This is summarised in the *DH Group Accounting Manual* (*GAM*).

83. Paragraph 5.38 of the *DH GAM* explains that a PDC dividend receivable or payable is excluded from the calculation of relevant net assets. This is to avoid a circular effect in the calculation. Given that incentive and bonus fund elements of the Sustainability and Transformation Fund will be paid after the year-end in 2016-17, if no action were taken, the associated receivable will change the PDC dividend and this would affect the STF incentive and bonus entitlement calculation itself.

84. To avoid this, as a one off action to avoid the circular issue, NHS providers must exclude the receivable associated with the STF incentive and bonus fund from their calculation of relevant net assets for the purpose of calculating the PDC dividend. DH will be looking at the design of the STF in 2017-18 to find a more sustainable solution and as such this is for one year only.

85. NHS Improvement has recently issued amendments to 2016-17 Q4 NHS trust forms to enact this in the detailed calculations. If NHS providers have further questions regarding STF and the PDC dividend, they should contact NHS Improvement in the first instance by email to NHSI.TFMSqueries@nhs.net (NHS trusts) or FT.Accounts@improvement.nhs.uk (NHS foundation trusts).