



Department
of Health

Department of Health Group Accounting Manual 2016-17: consultation document

May 2016

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Department of Health Group Accounting Manual 2016-17

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1. Overview

All bodies within the Department of Health accounting boundary (departmental group bodies) must publish annual reports and accounts. Clear and transparent reporting helps the entity – as well as the users of the entity’s annual report and accounts – understand and scrutinise the year’s operations and outcomes.

The Department of Health (and Monitor as the regulator for NHS foundation trusts, operating as NHS Improvement) has powers to direct the form in which the annual report and accounts should be prepared, the information that should be included, and the methods and principles that should be followed in their preparation. In determining the form and content of the accounts we must, by statute, aim to ensure the accounts present a true and fair view.

In order to achieve this, the department issues a group wide annual report and accounting manual every year, containing the requirements departmental group bodies need to follow when preparing their annual reports and accounts.

In previous years, Monitor and the Department of Health issued separate manuals for this purpose, targeted at NHS foundation trusts and the rest of the departmental group respectively. This year, the accounting requirements in the two manuals have been merged to produce a single reference document, the *‘Department of Health Group Accounting Manual 2016-17’* (DH GAM). NHS Improvement will continue to publish separately the annual reporting requirements for NHS foundation trusts via an *‘NHS foundation trust annual reporting manual’* (FT ARM). The FT ARM will contain the formal accounts direction but foundation trusts will follow the DH GAM for accounts requirements.

The DH GAM requires departmental group bodies to follow the requirements of International Financial Reporting Standards (IFRS), as adopted by the European Union, and the HM Treasury Financial Reporting Manual (FReM). Therefore, the DH GAM only includes detailed accounting guidance where departmental group bodies are:

- required to depart from IFRS or the FReM
- required to make specific disclosures in addition to IFRS and the FReM, or
- faced with particular circumstances that IFRS or the FReM do not address.

Updates to the DH GAM follow the same principle and, on that basis, are required where IFRS or the FReM have changed or when departmental group bodies are required to make specific extra disclosures.

Some content for 2016-17 is not yet available, such as Treasury Discount Rates. The draft DH GAM is highlighted yellow where this is the case, and the manual will be revised later in the year once this content is known.

2. This consultation

This consultation relates to the draft DH GAM for 2016-17. The consultation period will run from 10 May 2016 until 1 July 2016. The 2016-17 DH GAM will be published in August 2016, once we have received and reviewed consultation responses. It is subject to approval by the Financial Reporting Advisory Board (FRAB), and any changes will be made in collaboration with the relevant sector finance leads.

This document summarises the principal changes introduced in the draft DH GAM 2016-17. A table of requirement and format changes is also included within the draft DH GAM.

Please send in your responses by **5pm on Friday 1 July 2016** to the appropriate mailbox listed in section 5, with 'GAM 2016-17 Consultation Response' in the subject header.

3. Principal changes proposed in 2016-17

A. Director benefits disclosures

This section refers to the previous FReM divergence applicable to NHS foundation trusts on the disclosure of director remuneration requirements under s412 of the Companies Act 2006, and IAS 24 Related Party Disclosures.

The FReM adapts the requirements of the Companies Act 2006 for the public sector context, and entities that are not companies only need to follow the requirements of the Act to the extent that they are incorporated into the FReM. The 2015-16 FT ARM departed from the FReM in requiring foundation trusts to disclose the information on directors' benefits and remuneration required by sections 412 and 413 of the Companies Act 2006.

For 2016-17, it is proposed to withdraw the FReM divergence in respect of section 412. In common with other public sector entities, NHS foundation trusts will no longer be required to make the additional disclosures on directors' remuneration set out therein.

The FReM divergence in respect of section 413 remains. Where relevant, *NHS foundation trusts only* should continue to make the disclosures on advances, credits and guarantees set out therein as a note to the accounts, as in previous years.

Consultation question 1:

Do you have any comments on our proposal to remove the requirement for NHS foundation trusts to make the disclosures set out in the Companies Act 2006 section 412, in line with the FReM?

B. IAS 39 – Financial Instruments: Recognition and Measurement

This section refers to the previous FReM divergence applicable to NHS foundation trusts on the discount rate applicable to the measurement of fair value of future cash flows from financial instruments.

The FReM interprets *IAS 39 – Financial Instruments: Recognition and Measurement* as follows:

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 as applied to the flows expressed in current prices.

The 2015-16 FT ARM departed from the FReM in requiring NHS foundation trusts to apply a market rate for similar instruments and similar entities (adjusted for credit risk where appropriate).

For 2016-17, it is proposed to withdraw this FReM divergence and to require NHS foundation trusts to follow the FReM interpretation set out above.

Consultation question 2:

Do you have any comments on our proposal to require NHS foundation trusts to discount future cash flows from financial instruments as set out in the FReM?

C. Parliamentary Accountability and Audit Report

This section refers to changes to the annual report content, and is applicable to ALBs, NHS trusts and NHS England including CCGs. NHS foundation trusts annual report requirements are included in the FT ARM and are not affected by the revisions referred to below. NHS Improvement will issue an additional short consultation on the annual report requirements for foundation trusts in the FT ARM 2016-17.

Following the results of HM Treasury's project to streamline and simplify public sector bodies' annual reports and accounts in 2015-16, changes were promulgated via the 2015-16 FReM. A parliamentary accountability and audit report was introduced as a subsection to the accountability report, including the following content:

- Statement of Parliamentary Supply
- a brief description of the material remote contingent liabilities (disclosed under Parliamentary reporting requirements and not under IAS 37) and, where practical, an estimate of its financial effect
- explanation of regularity of expenditure, and long term trends
- a statement of compliance with cost allocation and charging requirements (Public Sector Information Holders only)
- notation of gifts made over a value of £300,000
- a statement of losses and special payments where the total amounts incurred are over the limits proscribed in Managing Public Money
- an analysis of fees and charges income where material,
- audit certificate and report.

The introduction of the parliamentary accountability report mainly affected central government departments, but some content is required by all entities within the departmental accounting boundary. The requirements also vary by sector, and in some cases there is still a requirement

to disclose the information as a disclosure note to the financial statements (e.g. contingent liabilities).

As the department is required to produce a consolidated parliamentary accountability report, the required information needs to be available within the underlying annual reports and accounts of departmental group bodies. Where a parliamentary accountability report disclosure is not mandatory for an entity, the DH GAM allows the option to include the information within a parliamentary accountability report, or to continue disclosing the information as a note to the financial statements, as in previous years.

There is no change to the reporting requirements compared with 2015-16, but the Parliamentary Accountability and Audit Report section of Chapter 2 has been revised to make clearer the options available to entities in each sector.

Where an entity chooses only to include the audit report and certificate then this section may be renamed "Audit Report".

Consultation question 3:

Do you have any comment on the revisions to the guidance on parliamentary accountability and audit reports?

D. Capitalisation thresholds for non-current assets

The manuals published in 2015-16 contained an inconsistency in the discretion afforded to group bodies in setting the de minimis threshold for capitalisation of property, plant and equipment. While it was expected most of the group would consistently apply a threshold of £5,000 for individual asset capitalisation, NHS foundation trusts had scope to apply a different threshold if it was more practicable to do so. Only a very small number of foundation trusts have taken the opportunity to deviate from £5,000. The de minimis limits additionally apply to the total cost of collections of assets individually costing less than the limit, but forming a capitalised group asset.

The FReM does not proscribe a single de minimis capitalisation limit across all government departments. Therefore, for consistency of approach across the group, it is proposed to remove the scope to set different limits for NHS foundation trusts, and require a de minimis limit of £5,000 for all entities.

Refer to paragraph 6.26 of the draft GAM, and paragraph 5.18 of the 2015-16 FT ARM.

Consultation question 4:

Do you have any comment on the proposals to consistently apply the de minimis capitalisation threshold for non-current assets across all entities in the accounting boundary?

E. Other changes

As the first combined accounting manual for all NHS bodies, including foundation trusts, the DH GAM is effectively a new document, although it incorporates content from the previous DH

Group Manual for Accounts and FT ARM. There are therefore many changes to layout, wording and style, which are too numerous to highlight individually.

Importantly, there have been no changes to the 2016-17 FReM compared with the updated 2015-16 FReM, and no significant changes to accounting standards for 2016-17. Changes incorporated into the draft DH GAM are therefore largely for clarity and presentation.

The following minor changes should be noted:

- Chapter 3 Annex 1 lists the accounting standards currently applicable to the DH group. This appeared in the previous DH manual, and is now cross-referenced to more detailed guidance elsewhere in the draft DH GAM.
- Paragraphs 5.64 to 5.66 have been updated to make reference to the source of pensions disclosure information. Additional reference has been made to the requirement for employers to understand the nature of other schemes of which their employees may be members and to make a judgement on the disclosure requirements under IAS 19, as interpreted in the FReM.
- Chapter 6 Annex 4 includes a new section (paragraph 18 onwards) explaining the budget impacts of service concession arrangements and the information required in summarisation schedules to enable the department to make the necessary adjustment on consolidation.

Consultation question 5:

Do you have any comments on the other changes listed or any other amendments?

Consultation question 6:

Do you have any general comments on the draft DH GAM?

4. Summary of Consultation questions

- 1) Do you have any comments on our proposal to remove the requirement for NHS foundation trusts to make the disclosures set out in the Companies Act 2006 section 412, in line with the FReM? (Applicable to NHS foundation trusts only.)
- 2) Do you have any comments on our proposal to require NHS foundation trusts to discount future cash flows from financial instruments as set out in the FReM? (Applicable to NHS foundation trusts only.)
- 3) Do you have any comment on the revisions to the guidance on parliamentary accountability and audit reports? (Not applicable to NHS foundation trusts.)
- 4) Do you have any comment on the proposals to consistently apply the de minimis capitalisation threshold for non-current assets across all entities in the accounting boundary?
- 5) Do you have any comments on the other changes listed or any other amendments?
- 6) Do you have any general comments on the draft DH GAM?

5. Responding to the consultation

We are keen to hear your views on the details of the proposals. The draft DH GAM is published on the Department of Health Finance Publications section of GOV.UK.

Please send responses in the first instance to the contact below, with 'GAM 2016-17 Consultation Response' in the subject header:

NHS Trusts: NHSI.TFMSqueries@nhs.net

NHS foundation trusts: FT.accounts@monitor.gov.uk

NHS commissioners: England.yearendaccounts@nhs.net

Other Arm's Length bodies: DH_GAM@dh.gsi.gov.uk

Audit firms: DH_GAM@dh.gsi.gov.uk

Finance sector leads will consolidate queries for their sectors, and provide a consolidated list of responses to the department. Consultation responses must be sent to the contacts above by the closing date of **5pm on Friday 1 July 2016**.