



Financial Reporting Advisory Board Paper

NHS Foundation Trust Annual Reporting Manual 2013/14

Issue:	NHS Foundation Trust Annual Reporting Manual (FT ARM) 2013/14 – draft for consultation
Impact on guidance:	No impact on FReM: approval of divergences from FReM sought for NHS foundation trusts.
IAS/IFRS adaptation?	N/A
Impact on WGA?	No
IPSAS compliant?	N/A
Interpretation for the public sector context?	N/A
Impact on budgetary regime?	N/A
Alignment with National Accounts	No
Impact on Estimates?	No
Recommendation:	The FRAB is asked to note and approve the list of changes to the FT ARM 2013/14 and the text of the draft FT ARM 2013/14.
Timing:	2013/14

DETAIL

Background

1. The Health and Social Care (Community Health and Standards) Act 2003 provided for the creation of NHS foundation trusts as public benefit corporations, to provide goods and services for the purposes of the health service in England. This act was repealed on 1 March 2007 and re-enacted on that date in a consolidating act, the National Health Service Act 2006 ("the 2006 Act") and later amended by the Health and Social Care Act 2012 ("the 2012 Act"). As at 1 May 2013 there are 146 NHS foundation trusts authorised by Monitor.

2. Under Schedule 7 paragraphs 24 and 25 of the 2006 Act NHS foundation trusts are required to comply with any directions given by Monitor with the approval of the Secretary of State as to:

- a) the methods and principles according to which the accounts are to be prepared; and
- b) the information to be given in the accounts.

3. In determining the form and content of the annual accounts, Monitor, as the regulator, must aim to ensure that the accounts present a true and fair view (paragraph 25(3), Schedule 7). Monitor is required to obtain the Secretary of State's approval for the Accounts Direction.

4. HM Treasury has previously accepted that there are fundamental differences between NHS Trusts and Government Departments rendering some requirements in the Government's Financial Reporting Manual (FRoM) irrelevant to NHS Trusts. This is also the case for NHS foundation trusts.

5. As was the case in previous periods, Monitor is required to agree any proposed divergences from the FRoM with FRAB prior to the release of its accounting guidance to NHS foundation trusts.

2013/14 FT ARM

6. A draft of the financial chapters of the 2013/14 FT ARM (chapters 1-6) was presented to FRAB (115) in February 2013. The consultation on those chapters was not issued at that time as:

- a) We wished to consult on the whole FT ARM, to include chapter 7 which covers annual report requirements. This was not available at that time as it was dependent upon developments in Monitor's regulatory regime. The changes to this are covered below in this paper.
- b) There were some matters still to be resolved in the Department of Health group accounting which needed to be reflected in the FT ARM. These changes are covered below in this paper, and should be consistent with the NHS Manuals paper presented to this FRAB meeting.
- c) Further minor amendments have been made to financial chapters of the FT ARM to reflect developments in Monitor's regulatory regime. These changes are listed below.

7. FRAB papers which deal with the FT ARM usually contain an annex re-confirming the existing divergences from the FRoM. These relate to accounting matters and these parts of the FT ARM for 2013/14 were approved by FRAB at its meeting in February and so the list is not reproduced here.

Amendments to chapter 7 (annual report) of the FT ARM 2013/14

8. *Quality Reports (annex 2 to chapter 7)*: NHS foundation trusts are required to publish a quality report as part of their annual report. FTs are also required to submit a quality account to the Department of Health. The requirements of the quality report are set by Monitor. This includes all the requirements of the quality accounts, plus a number of additional disclosures. The FT ARM has

previously included a pro forma of the quality report. This has meant that issuing the FT ARM has been delayed until DH publish the quality accounts requirements, usually in January of the financial year to which they relate. To avoid delaying the FT ARM the detail of the Quality Accounts regulations has been removed from the FT ARM. The additional requirements set by Monitor continue to be listed. A separate pro forma containing the two sets of regulations will be published by Monitor separately later in the financial year.

9. *Licensing and AGS (annex 6 to chapter 7)*: Since their inception in 2004, NHS foundation trusts were issued with 'terms of authorisation' by Monitor which set out their scope to operate. Under the Health and Social Care Act 2012, terms of authorisation no longer exist. In their place, from 1 April 2013 Monitor issues licences to NHS foundation trusts. The FT ARM provides a template Annual Governance Statement for FTs to follow. For 2013/14 a disclosure has been added on the principal risks to compliance with condition 4 of the FT licence (governance).

10. Other changes to chapter 7:

- a) Paragraph 7.15 – quality governance disclosure on inconsistencies between documents updated to include the corporate governance statement submitted with the annual plan.
- b) Paragraph 7.32 – added a placeholder for the off-payroll arrangements disclosure that was required in 2012/13.
- c) Paragraph 7.68 – added requirement to disclose significant issues considered by the Audit Committee in receiving the accounts. Required by the UK Corporate Governance Code 2012.
- d) Paragraphs 7.80 to 7.82 – disclosure of Monitor's regulatory risk ratings updated to reflect new regulatory regime under the Risk Assessment Framework. Annex 4 to chapter 7 is updated similarly.
- e) Paragraph 7.88 – previous requirement to disclose compliance "with the cost allocation guidance and charging requirements set out in HM Treasury and Office of Public Sector Information guidance" has been deleted as this requirement in the HM Treasury FReM is out of date and its replacements are not applicable to NHS foundation trusts.
- f) Paragraph 7.91 – added to the statement of accounting officer's responsibilities for the directors to consider the annual report and accounts as a whole. Required by the UK Corporate Governance Code 2012.

Further amendments to financial chapters for DH group accounting matters

11. The draft financial chapters of the 2013/14 ARM were presented to FRAB (115) in February 2013. The rest of this paper deals with only changes made since that approval.

12. *Transfers by absorption (paragraph 3.49)*: In 2012/13 the FT ARM early adopted the principles of transfers by absorption, with the corresponding gain/loss to match the net assets transferred taken to income and expenditure. For 2013/14 HM Treasury has approved a variation of the principles of absorption accounting for transactions arising from the 1 April 2013 reorganisation of the NHS. For such transactions, the net credit/debit that arises will be taken to reserves, rather than to income/expenditure. This is because with PCTs and SHAs having ceased to exist on 31 March 2013, the transfers of assets to bodies on 1 April would lead to a corresponding loss in the DH's own accounts on 1 April 2013, and in most cases gains for all other bodies. DH wished to avoid this large-scale distortion in accounts in 2013/14.

13. *Public Dividend Capital (PDC) dividends (paragraphs 4.33 and 4.34)*: PDC dividends are calculated as 3.5% of average relevant net assets. Relevant net assets exclude the average values of donated assets and balances held in Government Banking Service accounts. The methodology typically used by FTs to calculate the average GBS balance was a crude average of the opening and closing balances. Many FTs therefore placed cash with the GBS over each year end to reduce their

PDC dividend charge, but for the rest of the year put cash on commercial deposit to benefit from investment income. This practice led to large fluctuations in GBS balances at year end, and HM Treasury has sought to reduce these fluctuations. From 2013/14 DH has decided that this adjustment to net assets for GBS is to be calculated based on average daily balances in GBS.

14. In addition, a large number of NHS foundation trusts have taken on PCT assets on 1 April 2013. This would serve to increase net assets on which PDC dividends are calculated. Under transitional arrangements for 2013/14 only, such transfers are to be excluded from the calculation of PDC dividends in 2013/14.

Further amendments to financial chapters due to Monitor's regulatory changes

15. *Protected Assets (paragraph 4.60)*: Under the NHS Act 2006, NHS trusts and NHS foundation trusts had protected assets. These were land and building assets provided to the trust by the Department of Health, with restrictions on the trust's ability to dispose of these assets. The FT ARM previously required:

- a) disclosure of the value of assets split between protected and non-protected; and
- b) disclosure of where protected assets have been disposed of, with details of the sale proceeds and a brief description.

16. The Health and Social Care Act 2012 removes the concept of protected assets. The licence for NHS foundation trusts requires FTs to maintain a register of assets used in the provision of Commissioner Requested Services. It was considered whether the FT ARM should mandate a disclosure that this has been complied with, but it is proposed that this would not be proportionate given other parts of the licence are not subject to such positive disclosure. In order to reduce the burden on FTs it is proposed that the disclosure of asset values split between protected and non-protected is removed and not replaced. However it is proposed to retain the disclosure on the disposal of land and buildings assets used for CRS as this disclosure will also provide a justification for this decision and how commissioner requested services will continue to be provided in order to protect patients' interests through the continuity of service.

17. *Mandatory income (paragraph 4.43)*: The FT ARM in 2012/13 required disclosure of the value of income from activities from mandatory and non-mandatory services. It is proposed to replace this with a disclosure of income arising from CRS and non-CRS services, as it is considered useful information for both Monitor and the reader of the accounts to be able to identify how much of the trust's activities relate to CRS activity.

Next steps

18. Monitor proposes to issue the draft FT ARM 2013/14 for consultation during w/c 20 May. The proposed changes set out here will be subject to consultation, with the exception of PDC dividend calculation changes where the Department of Health is responsible for policy.

19. We propose a six week consultation period, to run to the first week in July. It is proposed that the 2013/14 ARM is not re-presented to FRAB unless there are substantive changes compared to the draft proposed here. In 2012/13 FRAB delegated the subsequent final review of the FT ARM to two FRAB members.

20. The full text of the draft 2013/14 FT ARM is attached as annex A. All changes compared to 2012/13 are shown in bold italic type. This includes the accounting changes previously approved by FRAB.

Impact on disclosures in resource and other accounts

21. No changes brought by this paper.

IAS/IFRS compliance

22. No changes brought by this paper. FRAB have previously approved the 2013/14 accounting divergences carried forward from the previous year.

IPSAS compliance

23. Not applicable.

Proposed text for the Government Financial Reporting Manual

24. Not applicable.

Impact on the budgetary regime

25. Not applicable.

Summary and recommendation

26. The NHS Foundation Trust Annual Reporting Manual has been produced in accordance with the underlying principle that the accounting practices adhere to IFRS and relevant corporate and public sector reporting requirements as far as possible.

27. The FRAB is asked to note and approve the list of changes to the FT ARM 2013/14 and the text of the draft FT ARM 2013/14.

Monitor
17 May 2013

Draft 2013/14 FT ARM

See separate attachment for full file.

All changes compared to 2012/13 are shown in bold italic type. This includes the accounting changes previously approved by FRAB.

IMPACT ON STANDARD CHART OF ACCOUNTS

This annex will not form part of the final paper to the FRAB, but will be used by the GEAR team to maintain the SCOA and the WGA format.

Click here and insert title of paper

Issue:	Click here and overtype with a BRIEF statement of what the issue is
Impact on guidance:	The proposed text in Annex A relates to the shadow FReM.
IAS/IFRS adaptation?	Yes/No (Provide a brief note on what it is if you answer 'no'.)
IPSAS compliant?	Yes/No (Provide a brief note on what it is if you answer 'no'.)
Interpretation for the public sector context?	Yes/No (Provide a brief note on what it is if you answer 'yes'.)
Impact on budgetary regime?	Yes/No Does your proposal impact on the budgetary control regime?
Alignment with National Accounts	Do the proposals align with the National Accounts treatment?
Impact on Estimates?	Will the proposals change what needs to go into Estimates?
Recommendation:	What are you recommending that the FRAB does, based on the above statements?
Timing:	Insert the relevant financial year effective date for the proposal.

Does this paper propose a change in accounting policy? **Yes/No**

Does the impact on Budgets, Estimates, Department Yellow or WGA mean that additional disclosures are required? **Yes/No**