

# Financial Reporting Advisory Board Paper

## Department of Health Group Accounting Manual 2018-19

<b>Issue:</b>	This paper provides an update on plans to publish the 2018-19 Department of Health Group Accounting Manual, and presents a first draft. This is in advance of consultation on the Manual.
<b>Impact on guidance:</b>	The Manual supplements the FReM for the DH Group
<b>IAS/IFRS adaptation?</b>	The Manual follows the adaptations and interpretations in the FReM
<b>Impact on WGA?</b>	N/A
<b>IPSAS compliant?</b>	N/A
<b>Interpretation for the public sector context?</b>	The Manual follows the adaptations and interpretations in the FReM
<b>Impact on budgetary regime?</b>	N/A
<b>Alignment with National Accounts</b>	N/A
<b>Impact on Estimates?</b>	N/A
<b>Recommendation:</b>	FRAB is asked to note the proposed timetable for publication and approve the draft DH Group Accounting Manual for consultation.
<b>Timing:</b>	2018-19

## **DETAIL**

### ***Background***

1. The Department of Health's Group Accounting Manual for 2017-18 was approved by FRAB in March 2017 and, after a delay due to the 2017 General Election, published in June 2017. The original intention had been to publish at the end of April, several months earlier than in previous years, and the 2018-19 Manual is being prepared to a similar timetable.
2. The main changes for 2018-19 relate to the adoption of the two new IFRS Standards for this year: IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers. DH has worked with HM Treasury as part of its technical working groups on these standards, contributing to the development of interpretations and adaptations for the Financial Reporting Manual (FReM). The same interpretations and adaptations are incorporated into DH's Group Accounting Manual for 2018-19.
3. This paper describes these and other changes incorporated into the 2018-19 Manual, sets out the remaining timetable for publication, and presents a first draft.

### ***IFRS 9 – Financial Instruments***

4. A full review of the text of the Manual has been undertaken, replacing references to the previous standard, IAS 39, and amending accounting, presentation and disclosure requirements as necessary.
5. In particular, paragraphs 4.152 to 4.160 deal with the principles of accounting for financial instruments under IFRS 9, including the interpretations and adaptations set out in the 2018-19 FReM. These interpretations and adaptations are also summarised as part of Chapter 4 Annex 1. More detailed guidance on financial instruments appears in Chapter 4 Annex 6, which has been completely rewritten to reflect the requirements of IFRS 9. The example accounting policies for financial assets and financial liabilities in Chapter 5 Annex 1 have also been extensively amended.
6. The FReM adaptation exempting departments from recognising stage-1 and stage-2 impairments against each other includes an option for departments to extend this exemption to their Arms Length Bodies, where the parent department provides an explicit guarantee covering their debts. There is extensive intra-group trading within the DH group, particularly between NHS commissioners and providers, and impairing receivables arising from these transactions would create a significant administrative burden with no benefit to the bodies affected. DH therefore proposes to take advantage of this option, and the Manual includes a statement to this effect in paragraph 4.157. This is currently subject to legal advice.
7. Financial instruments in the DH group are generally not complex and, apart from the practical implications of the requirement to recognise loss allowances for expected credit losses, the impact of adopting IFRS 9 is not expected to be significant.

### ***IFRS 15 – Revenue from Contracts with Customers***

8. A full review of the text of the Manual has been undertaken, replacing references to the previous standards, IAS 18 and IAS 11, and amending accounting, presentation and disclosure requirements as necessary.
9. Some additional guidance on recognising revenue has been included in paragraphs 4.41 to 4.57, but for the most part entities will be expected to simply apply the requirements of IFRS 15 to

their contracts and determine an appropriate basis for recognising revenue accordingly. Interpretations and adaptations to IFRS 15 in the FReM are summarised as part of Chapter 4 Annex 1. Minor amendments have been made to the example accounting policies in Chapter 5 Annex 1 to ensure they are consistent with IFRS 15.

10. DH expects to undertake further work with NHS national bodies to consider disclosure requirements for revenue, and this may require amendments to the disclosure headings specified in the Manual.

### ***Apprenticeship Levy***

11. The Apprenticeship Levy was introduced on 6 April 2017. The 2017-18 Group Accounting Manual does not currently specify accounting for this, as a common approach across government had not been agreed when it was published.

12. DH has participated in discussions with HM Treasury and Department for Education in support of the development of an agreed government approach. We have also discussed the issue with a representative of local NHS auditors, who described an approach widely used in the private sector whereby payments of the Levy are accounted for as prepayments for training.

13. We understand that government bodies will be expected to adopt a 'tax approach', in which payments of the levy are expensed on payment as part of social security costs. In order to ensure that this approach is followed consistently throughout the NHS, we propose to mandate this through the Manual. Paragraphs 4.76 to 4.85 of the draft 2018-19 Manual therefore reflect the latest draft guidance produced by Department for Education. We also propose to incorporate this guidance into the 2017-18 Manual by issue of an 'FAQ' amendment in December 2017.

### ***Financial Reporting Manual changes***

14. This draft of the Manual has been amended where necessary to reflect amended text in the revised 2017-18 FReM and 2018-19 FReM, as submitted to FRAB. These amendments will be reviewed against the final versions of these texts, due to be published by HM Treasury in December 2017.

15. DH will also incorporate these amendments in the revised version of its 2017-18 Manual in December 2017.

### ***Other changes***

16. The above and other less significant changes are listed in the Summary of Changes on page 11 of the draft Manual.

17. The high level timetable for publication of the 2017-18 Manual is set out at Annex A. Following presentation of the first draft to FRAB in November, the Manual will be updated to reflect any changes in the 2017-18 FReM, due to be published in December 2016. A consultation with the user community will then follow in January/February 2017, which will fall between the preparation of Q3 and Q4 accounts by NHS bodies. The final version of the Manual will then be submitted for FRAB approval in late March, allowing publication at the end of April 2017.

### ***Timetable***

18. A proposed timetable for publication of the 2018-19 Manual is set out at Annex A.

19. Following presentation of this first draft to FRAB, DH proposes to prepare a version for consultation with stakeholders, including auditors, NHS bodies and ALBs, during January and February 2018.

20. Upon completion of this consultation, DH will prepare a final version of the Manual for approval by FRAB in March 2018. In common with the approach taken in previous years, we request that a sub-committee of FRAB reviews and approves the Manual as an out-of-meeting paper.

21. Subject to approval, we propose to publish the 2018-19 Manual at the end of April 2018.

***DH Group Accounting Manual 2018-19***

22. The draft 2018-19 Manual is presented at Annex B.

***Recommendation***

23. FRAB is asked to:

- note the proposed timetable for publication,
- approve the draft DH Group Accounting Manual 2018-19 for consultation,
- approve the adoption of the Apprenticeship Levy guidance into the 2017-18 GAM
- agree to the establishment of a sub-group to give final sign-off.

***Annex A: Timetable for publication of the 2018-19 DH Group Accounting Manual***

16 Nov 17	Draft 2018-19 GAM presented to FRAB
Dec 17	2018-19 FReM published
Jan - Feb 18	Consultation with user community on draft GAM
Mar 18	Post-consultation amendments
23 Mar 18	GAM submitted to FRAB for approval
9 Apr 18	FRAB provide approval/comments
27 Apr 18	Final 2018-19 GAM published

***Annex B: Department of Health Group Accounting Manual 2018-19***

See separate document.