

Financial Reporting Advisory Board Paper

NHS Foundation Trust Annual Reporting Manual 2012/13 and 2013/14

Issue:	NHS Foundation Trust Annual Reporting Manual (FT ARM) – final version of 2012/13, and draft of financial chapters for 2013/14
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:	<ul style="list-style-type: none"> • Note the results of the 2012/13 FT ARM consultation. • Approve the list of amendments and divergences, and accordingly approve the NHS Foundation Trust Annual Reporting Manual (FT ARM) 2013/14 (financial chapters).
Timing:	2012/13 and 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 This act was repealed on 1 March 2007 and re-enacted on that date in a consolidating act, the National Health Service Act 2006 ("the 2006 Act") and later amended by the Health and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").

2. As at 1 January 2013 there are 145 NHS foundation trusts authorised by Monitor.

3. 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.

4. 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.

5. 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.

6. 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.

7. This paper deals with three matters:

- a) The results of Monitor's consultation on the financial chapters (chapters 1-6) of the draft **2012/13** FT ARM as presented to FRAB in October 2012;
- b) Issuing the annual reporting chapter (chapter 7) of the **2012/13** FT ARM; and
- c) A draft of the financial chapters of the **2013/14** FT ARM to be issued for consultation.

8. This paper outlines the proposed list of practices divergent from the FRoM for formal agreement by HM Treasury. The detailed list of proposed divergences is included at Annex D. FRAB is asked to note that there are no new proposed divergences from the FRoM.

9. There being three elements to this paper reflects Monitor's commitment to FRAB to move to issue the FT ARM at the beginning of the financial year to which it relates.

Results of Monitor's consultation on the financial chapters (chapters 1-6) of the draft 2012/13 FT ARM as presented to FRAB in October 2012

10. The proposed changes to the financial chapters of the 2012/13 FT ARM were set out in FRAB paper (113) 08. In summary the key changes were:

- a) the early adoption of absorption accounting principles for business combinations as set out in the 2013/14 HM Treasury FRoM;
- b) principles for accounting for the CRC Energy Efficiency Scheme;

- c) the removal of private patient income cap disclosures following that part of the 2006 Act being repealed; and
- d) a change in disclosure analysis for non-audit fees payable to the auditor.

11. Following the consultation, all of these changes have remained and there have been no substantive changes to the FT ARM compared that previously presented to FRAB.

12. At its meeting in October, FRAB delegated the final review of the FT ARM to two FRAB members and so the FT ARM is not re-attached here. The FT ARM has been sent for their review.

Issuing the annual reporting chapter (chapter 7) of the 2012/13 ARM

13. The changes to chapter 7 in 2012/13 reflect external factors and therefore Monitor will not be consulting on this chapter. The changes relate to:

- a) adding disclosures on an NHS foundation trust's policy on pay as required by the Health and Social Care Act 2012;
- b) adding disclosures on additional income requirements brought by the Health and Social Care Act 2012; and
- c) updating the Quality Reports disclosure requirements to reflect the National Health Service (Quality Accounts) Amendment Regulations 2012.

14. The full text of changes is provided in mark-up as annex A to this paper.

Draft financial chapters of the 2013/14 FT ARM to be issued for consultation

15. Monitor has drafted its NHS Foundation Trust Annual Reporting Manual (FT ARM) for NHS foundation trusts for the financial year ended 2013/14 (financial chapters). This document will replace the 2012/13 FT ARM and incorporates up to date accounting guidance for the financial year 2013/14.

16. The changes reflect updates to the HM Treasury FReM, and changes in legislation. The proposed changes are listed in annex B.

17. Recognising FRAB members' previous comments on being provided with the full text of changes, a copy of the 2013/14 FT ARM with the full text of changes in mark-up is provided as annex C to this paper.

18. These changes will be subject to consultation.

Impact on disclosures in resource and other accounts

19. Additional audited impairment information required for resource accounts disclosures will continue to be collected by Monitor. This data collection is consistent with previous years and therefore does not represent a new or additional reporting burden for NHS foundation trusts.

IAS/IFRS compliance

20. The divergences carried forward from the previous year adhere to the principle that the accounting practices of NHS foundation trusts adhere to IFRS as far as possible.

IPSAS compliance

21. Not applicable.

Proposed text for the Government Financial Reporting Manual

22. Not applicable.

Impact on the budgetary regime

23. Not applicable.

Summary and recommendation

24. The NHS Foundation Trust Annual Reporting Manual has been produced in accordance with the underlying principle that the accounting practices adhere to IFRS as far as possible.

25. The FRAB is asked to note and approve the list of changes to the FT ARM 2012/13 and 2013/14 (annexes A to C) and list of previously agreed divergences from the FReM (annex D).

Monitor
28th January 2013

ANNEX A

Chapter 7 of 2012/13 FT ARM

See separate attachment for marked up file.

The marked up changes are all those compared to the 2011/12 FT ARM as FRAB have not previously seen a draft of this chapter for 2012/13.

ANNEX B

Changes to the FT ARM financial chapters in 2013/14

The changes made to the financial chapters of the FT ARM in 2013/14 are as follows:

Changes to accounting standards as adopted by the HM Treasury FReM

These changes have previously been approved by FRAB and are being reflected in the FT ARM:

- amendments to IAS 1 which require items of Other Comprehensive Income to be classified between amounts that will be reclassified subsequently to income and expenditure and those that will not; and
- IAS 19 employee benefits - The significant changes to accounting for defined benefit schemes under the revised standard are:
 - the expected return on assets and the interest cost on the defined benefit obligation are no longer calculated as separate items. Instead the discount rate is applied to the net pension liability;
 - administration costs are now generally charged to expenses as incurred;
 - 'actuarial gains and losses' are renamed 'Re-measurement of the defined benefit liability'. It continues to be presented in other comprehensive income, and although the revised standard now permits it to be recognised in a separate component of taxpayers' equity, foundation trusts should continue to recognise it in the income and expenditure reserve; and
 - a revised definition of termination benefits

The following changes in the HM Treasury FReM in 2013/14 have already been adopted into the 2012/13 FT ARM and so are not changes here:

- the introduction of absorption accounting for some business combinations; and
- accounting for the CRC Energy Efficiency scheme.

Other

The following changes have also been reflected in the FT ARM:

- previously required disclosures setting out compliance with Monitor's Prudential Borrowing Code have been removed given this part of the NHS Act 2006 has been repealed from 1 April 2013 and
- consolidation of charitable funds – HM Treasury previously approved an exemption for NHS bodies to not apply IAS 27 to their linked NHS charities until the start of the 2013/14 year. This exemption no longer applies and so the FT ARM provides instruction on how this consolidation should be effected.

Draft changes

- IFRS 13 – The 2013/14 HM Treasury FReM has not yet been updated for changes brought by IFRS 13 following FRAB paper (114) 03, and so no changes have been made to the FT ARM for this Standard.

These changes will be subject to consultation.

A marked up version of the 2013/14 FT ARM is provided as annex C.

ANNEX C

Marked up FT ARM 2013/14 (financial chapters)

See separate attachment for marked up file.

The marked up changes are all those compared to the final 2012/13 FT ARM.

ANNEX D

Divergences from the Financial Reporting Manual (FReM) 2013/14

HM Treasury has previously accepted that the following are fundamental differences between NHS foundation trusts and Government departments rendering some requirements in the *Financial Reporting Manual (FReM)* irrelevant to NHS foundation trusts.

Government departments	NHS foundation trusts
On-vote	Off-vote
Appropriations-in-Aid (A-in-A) apply	A-in-A do not apply
Have revenue and capital resource limits	NHS foundation trusts do not have revenue or capital resource limits.
Have cash limits	NHS foundation trusts do not have cash limits
Have a Statement of Comprehensive Net Expenditure	Have a Statement of Comprehensive Income
Have a General Fund	Have Public Dividend Capital and pay dividends
Have statement of parliamentary supply and associated notes	Do not have statement of parliamentary supply nor associated notes
Ministers directly involved	Ministers not directly involved

Largely due to their different structure and role compared to bodies covered by the *FReM*, the following are approved accounting practices in NHS foundation trusts that differ from those in the *FReM*:

FReM requirement	NHS foundation trust accounting
Where the information on directors' remuneration required by sections 412 and 413 of the Companies Act 2006 is readily ascertainable from the Directors' remuneration report, it need not be disclosed in a note to the accounts (Paragraph 5.4.4(g)). The [IAS 24 – Related Party Disclosures] requirement to disclose the compensation paid to management... will be satisfied by the disclosures made in the notes to the accounts and in the Remuneration Report (Paragraph 5.4.60(d)).	Information on directors' remuneration should be disclosed in a note to the accounts, as required by the CA 2006 and IAS 24, separate from the directors' remuneration report.
Financial instruments: The <i>FReM</i> requires that 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 discount rate set by HM Treasury as applied to the flows expressed in current prices (Paragraph 9.2.7(d)).	Where future cash flows are discounted to measure fair value, NHS foundation trusts should use a market rate for similar instruments and similar entities (adjusted for credit risk where appropriate).
Related parties: the <i>FReM</i> refers to the 2003 version of IAS 24.	NHS foundation trusts are required to apply the 2009 version of IAS 24.
No equivalent <i>FReM</i> requirement regarding Quality Report	Requirement to include a Quality Report within the annual report