# Contents

# 1. Annual report and accounts preparation and submission requirements

**Statutory requirements for NHS foundation trusts' annual report and accounts**

1.1. There are three main statutory requirements for an NHS foundation trust in relation to its accounts:

1. to keep proper accounts and proper records in such form as the regulator may, with the approval of the Secretary of State, direct;
2. to prepare in respect of each financial year annual accounts in such form as the regulator may, with the approval of the Secretary of State, direct; and
3. to comply with any directions given by the regulator with the approval of the Secretary of State as to:
   - the methods and principles according to which the accounts are to be prepared; and
   - the content and form to be given in the accounts.

1.2. These requirements are set out in paragraphs 24 and 25 of Schedule 7 to the National Health Service Act 2006 (the "2006 Act").

1.3. 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 to the 2006 Act. Monitor has to obtain the Secretary of State's approval for the Accounts Direction. The agreed Accounts Directions in respect of the annual accounts and of the annual report are both shown at Annex 1 to this chapter.

1.4. In order to present a true and fair view, the accounts of an NHS foundation trust must comply with International Financial Reporting Standards (IFRS) as adopted by the European Union unless directed otherwise. The main source of guidance, therefore, for NHS foundation trust finance staff will be published accounting standards and supplementary guidance.

1.5. NHS foundation trusts also fall within the remit of the Financial Reporting Advisory Board (FRAB) which provides independent accounting advice in respect of public sector bodies to HM Treasury and the equivalent bodies in Scotland and Northern Ireland. The advice of FRAB is reflected in HM Treasury's *FReM* which is written for Government departments, executive agencies, executive non-departmental public bodies and trading funds. This manual is consistent with the requirements of the *FReM* and provides relevant guidance on departure from IFRS. Divergences from the *FReM* for NHS foundation trusts must be approved by FRAB and the current list of divergences is included in Annex 1 to Chapter 2 of this manual.

1.6. If NHS foundation trusts wish to refer to the *FReM* on a particular issue, a copy can be accessed on the resource accounting website: www.financial-reporting.gov.uk.

1.7. NHS foundation trusts should discuss the practical application of accounting standards with their auditors and agree the accounting approach which will be adopted. Guidance on accounting standards is included in this manual only where NHS foundation trusts are:

- required to depart from IFRS;
- required to make disclosures which are in addition to IFRS; or
- faced with particular circumstances which IFRS does not address.

1.8. It is expected that the preparers of an NHS foundation trust's annual report and accounts will consult this manual in the first instance and then refer to accounting standards where necessary. Other relevant guidance is cross referenced in this manual where appropriate.

1.9. This manual has been finalised following a consultation exercise. A summary of responses to the consultation is available on Monitor's website: www.monitor-nhsft.gov.uk . It may be necessary for Monitor to issue amendments to this manual as issues arise. Directors of finance will be notified by email of any amendments to the current manual and the amendments will also be published on Monitor's website. In addition, the manual will be updated annually and published on Monitor's website following consultation.

### Annual report and accounts

1.10. The annual report and accounts of an NHS foundation trust consist of:

- the annual report which includes the directors' report and remuneration report (see Chapter 7 for details);
- the accounting officer's statement of responsibilities (see Chapter 7 for details);
- the auditor's opinion and certificate (this should include a statement of the auditors' responsibilities in order to satisfy the requirements of paragraph F.1.1 of the Code of Governance);
- the annual governance statement (see Chapter 7 for details);
- the foreword to the accounts which should state that the accounts are prepared in accordance with paragraphs 24 and 25 of Schedule 7 to the 2006 Act;
- four primary financial statements (Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Taxpayers' Equity and a Statement of Cash Flows); and
- the notes to the accounts.

1.11. NHS foundation trusts are able to present their annual report and accounts in any way that they choose, providing that they are compliant with IFRS and the additional requirements laid down in this manual. Therefore, this manual does not include an accounts template although it does include some example statements and notes where it is considered useful.

### Consolidated NHS foundation trust accounts

1.12. Monitor is required by statute (paragraph 17(1), Schedule 8 to the 2012 Act) to prepare a report in respect of each financial year which provides an overall summary of the accounts of NHS foundation trusts. This report must be prepared as soon as possible after Monitor has received the annual report and accounts of all NHS foundation trusts for the relevant financial year and must be laid before Parliament and copied to the Secretary of State. The accounts of all NHS foundation trusts will also be consolidated into the *Whole of Government Accounts* prepared by HM Treasury. NHS foundation trusts will have to complete consolidation schedules to allow for the capture of accounting data for the summary of accounts and the *Whole of Government Accounts*.

### Deadlines, approval and publication procedures

1.13. Monitor has issued the deadlines below for the production of the NHS foundation trust annual reports and accounts for the year ended 31 March 201~~3~~4. **Please note it is the responsibility of the trust's Accounting Officer (and not the auditors) to comply with these requirements**:

| Deadline | What is required? | Where should it be sent? |
|---|---|---|
| ***Date TBC 2014*** | • **Draft** annual accounts; and<br>• **Draft** FT consolidated schedules (FTCs).<br><br>**Uploaded to Monitor Portal** (**NOT** posted), and given to your auditors | **Your Monitor Portal folder**<br>Outbox (to send to Monitor)\2013-14\<br>(or in case of exceptional technical difficulties) by email: ft.accounts@monitor-nhsft.gov.uk<br><br>• **FTCs uploaded to Monitor Portal as *Trust Return* and activity name *FTC Statement M12 – Unaudited.* File name should be "[MARS ID] Draft FTCs.xlsm"**<br>• **Accounts uploaded to Monitor Portal as *Trust Submission* and activity name *FTC Statement M12 – Unaudited.* Note: submissions that accompany FTCs will use the relevant FTC activity name.** |

| Deadline | What is required? | Where should it be sent? |
|---|---|---|
| ***Date TBC 2014*** | • **Audited** accounts;<br>• **Audited** FTCs;<br>• **Final** text of the annual report;<br>• **A copy** of the signed audit opinion on the accounts;<br>• **A copy** of the auditor's report on the FTCs;<br>• **A copy** of the auditors' final ISA (UK&I) 260 report;<br>• **Original, signed Annual Governance Statement**; and<br>• **Original, signed** Chief Executive's and Finance Director's certificate on the FTCs.<br><br>**Posted** and uploaded to **Monitor Portal** (posted first class before the last post on **Date TBC 2014**). It would assist us if subject lines of emails identified the name of Trust, and uploaded/attached copies of certificates and accounts contained signatures as and where appropriate.<br><br>***For the avoidance of doubt, all of the above should be both uploaded electronically and posted. The copy of the FTCs provided by post need not include the 'WGA' tabs for ease of printing, but these tabs continue to be covered by the Chief Executive's and Finance Director's certificate on the FTCs.*** | **Your Monitor Portal folder**<br>Outbox (to send to Monitor)\2013-14<br>(or in case of exceptional technical difficulties) by email: ft.accounts@monitor-nhsft.gov.uk<br><br>**Postal Address:**<br>FT Accounts, Monitor<br>4 Matthew Parker St<br>London SW1H 9NP<br><br>• **FTCs uploaded to Monitor Portal as *Trust Return* and activity name *FTC Statement M12 – Audited.* File name should be "[MARS ID] Audited FTCs.xlsm"**<br>• **All other documents for this submission (including accounts) uploaded to Monitor Portal as *Trust Submission* and activity name *FTC Statement M12 – Audited.*** |

<table>
<tr><th>Deadline</th><th>What is required?</th><th>Where should it be sent?</th></tr>
<tr><td>Date TBC 2014</td><td><ul><li>A copy of the limited assurance report on the content of the Quality Report and the mandated performance indicators requiring a limited assurance report;</li><li>A copy of the auditors' private report to the governors on the outcome of the external work performed on the content of the Quality Report, the mandated indicators and any local indicators</li></ul>Posted and uploaded to Monitor Portal. (posted first class before the last post on Date TBC 2014). It would assist us if subject lines of emails identified the Trust.</td><td>Your Monitor Portal folder<br><br>Outbox (to send to Monitor)\<br>(or in case of exceptional technical difficulties) by email:<br>ft.accounts@monitor-nhsft.gov.uk<br><br>Postal Address:<br><br>FT Accounts, Monitor<br><br>4 Matthew Parker St<br><br>London SW1H 9NP<br><ul><li>Files uploaded to Monitor Portal as Trust <u>Return</u> and activity name Quality Reports submission. File names should make the title of each submission clear and begin with the Trust's MARS ID.</li></ul></td></tr>
<tr><td>Date TBC 2014</td><td>Laying annual reports and accounts before Parliament:<ul><li>Full annual report and full statutory accounts (bound as one document)</li><li>5 hard copies to be posted to the Parliamentary Clerk's office for laying before Parliament to arrive on or before Date TBC 2014 (posted first class before the last post on Date TBC 2014)</li><li>PDF of report and accounts to be sent to MB-SI@dh.gsi.gov.uk.</li></ul>Please note requirement to send draft document to the Parliamentary Clerk for approval prior to printing.<br><br>See Annex 2 to Chapter 1 for more details.</td><td>Postal address:<br><br>The Parliamentary Clerk<br><br>Department of Health<br><br>Room 301<br><br>Richmond House<br><br>79 Whitehall<br><br>London SW1A 2NS</td></tr>
</table>

| Deadline | What is required? | Where should it be sent? |
|---|---|---|
| ***Date TBC 2014*** | **Sending laid reports to Monitor:**<br>• **Full** annual report and **full** statutory accounts<br><br>**Monitor Portal/emailed** to Monitor: a copy to be sent electronically for inclusion in the NHS Foundation Trust Directory on Monitor's website.<br><br>**See Annex 2 to Chapter 1 for more details** | **Your Monitor Portal folder**<br>Outbox (to send to Monitor)\ (or in case of technical difficulties) by email: ft.accounts@monitor-nhsft.gov.uk<br>• **File uploaded to Monitor Portal as *Trust Return* and activity name *Annual Report and Accounts (Parliament).* The file name should begin with the Trust's MARS ID.** |

1.14. The annual report and accounts submitted on ***Date TBC 2014~~3~~*** must be formally approved by the NHS foundation trust board of directors (the board). After adoption by the board, the chief executive, as the Accounting Officer, should sign and date the Statement of Financial Position and annual report as evidence of this. As Accounting Officer, the chief executive should also sign the foreword to the accounts, the annual governance statement and the remuneration report. The annual report and accounts should disclose the name of the person who signed them.

1.15. Once the annual report and accounts have been approved the auditor will sign the opinion on the accounts. However, auditors are required to read the information in the annual report and refer to this in their audit opinion. Therefore, the draft annual report must be submitted to the auditor to allow them sufficient time to do this prior to signing their opinion on the accounts.

1.16. Once the annual report and accounts have been approved, the Accounting Officer or director of finance must sign a certificate which states that the consolidation schedules (FTCs) are consistent with the annual accounts. Annex 3 to this chapter includes the proposed wording for such a certificate.

1.17. NHS foundation trusts are required to lay their annual report and accounts, with any report of the auditor on them, before Parliament (paragraph 25(4)(a)), Schedule 7 of the 2006 Act) before the summer recess begins in July ***2014~~3~~*** to enable parliamentary scrutiny.

1.18. The requirement to lay the annual report and accounts before Parliament means that they are classified as an Act Paper and become the property of Parliament. There are strict rules about the format of the publication and these must be followed in every case. Full details are contained in Annex 2 to Chapter 1 of this document.

1.19. The annual report and accounts which are laid before Parliament **must include the full statutory accounts and not summary financial statements**. The annual report and accounts that each NHS foundation trust submits to Parliament to be laid must be one document. It might be that this is formed from two electronic files but they must be presented (i.e. the hard copy must be bound) as one document. If an NHS foundation trust is getting an annual report and summary financial statements document designed, a solution could be to bind a PDF of the annual report with a PDF of the full annual accounts and amend the title accordingly.

1.20. The annual report submitted on ***Date TBC 2014~~3~~*** must include all of the text which will be included in the final publication submitted to Parliament. This is because the auditors will need to see the form of the annual report prior to signing their opinions. The period between ***Date TBC 2014~~3~~*** and submission to Parliament is to allow NHS foundation trusts time to format the document to the standards required for publication.

1.21. Until the annual report and accounts have been laid before Parliament nothing can be published by the NHS foundation trust for the wider public.

1.22. Once laid before Parliament the annual report and accounts cannot be changed. Guidance on the form and content of the annual report is included in Chapter 7 of this manual. However, NHS foundation trusts have the discretion to publish annual report and summary financial statements locally, see paragraph 1.26 below for more details.

1.23. Copies of the audited annual accounts, any report of the auditor and the latest annual report must be made available for inspection by members of the public free of charge at all reasonable times (paragraph 22(1), Schedule 7 of the 2006 Act). Any person who requests a copy of or an extract from any of these documents must be provided with one, although a reasonable copying charge may be levied where the person requesting a copy or extract is not a member of the NHS foundation trust (paragraph 22(4), Schedule 7 of the 2006 Act).

### Annual general meeting of the council of governors

1.24. The annual report and accounts and auditor's report on the accounts must be presented to the council of governors at a meeting of the council of governors (paragraph 28, Schedule 7 of the 2006 Act). This meeting of the council of governors should be convened within a reasonable timescale after the end of the financial year but must not be before the annual report and accounts have been laid before Parliament.

1.25. It is suggested that an advertisement be placed in the local media not less than 14 days prior to the date of the meeting, stating:

- the time, date and location of the meeting; and
- that copies of the annual report and accounts (or annual report and summary financial statements) of the NHS foundation trust are available, on request, prior to the meeting and how copies can be obtained.

### Annual Report and Summary financial statements

1.26. Once the full annual report and accounts have been laid before Parliament, NHS foundation trusts have discretion as to whether they wish to publish the full document locally or **a separate** Annual Report and Summary Financial Statements. **If an Annual Report and Summary Financial Statements is published, it must contain a statement by the auditor, which will be prepared in accordance with the Bulletin 2008/3 issued by the Auditing Practices Board.**

1.27. The Annual Report and Summary Financial Statements must be made available to the public free of charge, although a reasonable copying charge may be levied for copies of the full audited accounts where the decision has been made to publish the Annual Report and Summary Financial Statements. The Summary Financial Statements (SFS) must contain the following:

- a prominent statement that the SFS are merely a summary of the information in the full accounts which are available on demand;

- the amount, if any, of the nominal fee charged for the full accounts must be stated together with the address/phone number of the person to be contacted to obtain a copy of the full annual accounts;

- summary financial data in line with Part 3 and Schedule 7 or 8 of The Companies (Summary Financial Statement) Regulations 2008 (SI 2008/374).;

- the auditors' statement on the SFS;

- state whether the auditor's report on the full annual report and accounts was unqualified or qualified (including any qualification of inconsistency or of the "matters to report by exception") and, if qualified, provide a description of the qualification; and

- a statement that the SFS have been approved by the board. This should be evidenced by the signature of the chief executive as accounting officer.

1.28. The Annual Report and Summary Financial Statements must also contain the Annual Governance Statement.

1.29. The SFS must not be published before the full annual report and accounts have been laid before Parliament.

### NHS foundation trusts in their first period of operation

1.30. When an NHS trust is awarded NHS foundation trust status, an annual report and accounts must still be published for the final period of the NHS trust's existence. This may cover a full financial year where the change in status occurs on 1 April or a shorter period where the change in status occurs during the financial year. NHS foundation trusts will be required to prepare the final accounts and summarisation schedules for the predecessor NHS trust and meet the deadlines set by the Department of Health. **NHS foundation trusts should be aware that auditors may require the NHS trust accounts to be prepared in accordance with the NHS foundation trust deadline, where earlier, in order for the auditor to sign their opinion on the NHS foundation trust accounts**.

1.31. A public meeting must be held by the 30 September following the end of the financial year in which the NHS foundation trust was authorised at which the predecessor NHS trust's final annual report and accounts for the final period of NHS trust status must be presented.

1.32. The annual report, annual accounts and consolidation schedules for the final period of NHS trust status must be prepared in accordance with the guidance in the *NHS Trust Manual for Accounts* issued by the Department of Health for the period in question. It is recommended that the annual report and accounts for the final period of the NHS trust is produced as a separate document to the annual report and accounts for the first period of the NHS foundation trust status. This is because the corporate governance regimes and accounting procedures are different for each type of body.

1.33. Where an NHS foundation trust is awarded that status from 1 April, there is no requirement to include prior year comparatives for the Statement of Comprehensive Income, Statement of Changes in Taxpayers' Equity and Statement of Cash Flows. However, the opening Statement of Financial Position should be included in the accounts and some supporting notes will have to include an opening balance. The note for mid-year authorised NHS foundation trusts (FTC34) in the FTC is also required to be completed. These should be drawn up in accordance with the provisions of this Manual.

1.34. Where an NHS foundation trust is authorised part way through a financial year, two part-year sets of accounts are required. The first part-year accounts in respect of the predecessor NHS trust should be prepared in accordance with the NHS Trust Manual for Accounts. The second part-year accounts in respect of the NHS foundation trust must be prepared in accordance with this manual. Opening balances for the Statement of Financial Position and related notes as at the date of the NHS foundation trust's establishment should be disclosed but no other comparatives are required. These should be drawn up in accordance with the provisions of this manual.

1.35. An NHS foundation trust which started part way through a financial year will show only part year comparatives against its full year results in its second year of operation. The difference in accounting periods should be explained in a narrative note to the accounts.

1.36. The closing balances of the predecessor NHS trust will be transferred to the NHS foundation trust using NHS trust accounting policies. Therefore, in accordance with proper accounting practice, these opening balances must be re-stated in accordance with NHS foundation trust accounting practice where this is materially different, for example where the NHS trust has assets funded by government grant.

1.37. The NHS foundation trust annual report and accounts and consolidation report must be prepared in accordance with this manual.

## Annex 1 to Chapter 1: Directions

**NATIONAL HEALTH SERVICE ACT 2006**

**DIRECTION BY MONITOR, IN RESPECT OF FOUNDATION TRUSTS' ANNUAL REPORTS AND THE PREPARATION OF ANNUAL REPORTS**

Monitor, in exercise of powers conferred on it by paragraphs 24 and 25 of Schedule 7 of the National Health Service Act 2006, hereby directs that the keeping of accounts and the annual report of each NHS foundation trust shall be in the form as laid down in the annual reporting guidance for NHS foundation trusts within the *NHS Foundation Trust Annual Reporting Manual,* known as the *FT ARM*, that is in force for the relevant financial year.

Signed by authority of Monitor

**Signed:**

**Name:** David Bennett (Chairman and Chief Executive)

**Dated:**

## NATIONAL HEALTH SERVICE ACT 2006

## DIRECTIONS BY MONITOR IN RESPECT OF NATIONAL HEALTH SERVICE FOUNDATION TRUSTS' ANNUAL ACCOUNTS

Monitor, , with the approval of the Secretary of State, in exercise of powers conferred on it by paragraph 25(1) of Schedule 7 of the National Health Service Act 2006 (the "2006 Act"), hereby gives the following Directions:

### 1. Application and interpretation

(1) These Directions apply to NHS foundation trusts in England.

(2) In these Directions "The Accounts" means:

> for an NHS foundation trust in its first operating period since authorisation, the accounts of an NHS foundation trust for the period from authorisation until 31 March; or
>
> for an NHS foundation trust in its second or subsequent operating period following authorisation, the accounts of an NHS foundation trust for the period from 1 April until 31 March.
>
> "the NHS foundation trust" means the NHS foundation trust in question.

### 2. Form of accounts

(1) The accounts submitted under paragraph 25 of Schedule 7 of the 2006 Act shall show, and give a true and fair view of, the NHS foundation trust's gains and losses, cash flows and financial state at the end of the financial period.

(2) The accounts shall meet the accounting requirements of the '*NHS Foundation Trust Annual Reporting Manual*' (*FT ARM*) as agreed with the Secretary of State, in force for the relevant financial year.

(3) The Statement of Financial Position shall be signed and dated by the chief executive of the NHS foundation trust.

(4) The Annual Governance Statement shall be signed and dated by the chief executive of the NHS foundation trust.

### 3. Statement of accounting officer's responsibilities

(1) The statement of accounting officer's responsibilities in respect of the accounts shall be signed and dated by the chief executive of the NHS foundation trust.

### 4. Approval on behalf of the Secretary of State

(1) These directions have been approved on behalf of the Secretary of State.

**Signed by the authority of Monitor**

**Signed:**

**Name:** David Bennett (Chairman and Chief Executive)
**Dated:**

## Annex 2 to Chapter 1: Laying annual report and accounts before Parliament

**Statutory requirement**

NHS foundation trusts are required to lay their annual report and accounts, with any report of the auditor on them, before Parliament.

The annual report and accounts which are laid before Parliament **must include the full statutory accounts and not summary financial statements**.

Once laid before Parliament the content of the annual report and accounts cannot be changed. Guidance on the form and content of the annual report is included in Chapter ***7*** of this manual. However, NHS foundation trusts have the discretion, following laying the document before Parliament, to publish separately an annual report and *summary* financial statements locally; see paragraph 1.26 for more details.

Until the annual report and accounts have been laid before Parliament, nothing can be published by the NHS foundation trust.

**The process of laying papers before Parliament**

To prepare the report for laying before Parliament, NHS foundation trusts must follow the strict rules on the format. These are set out in the following paragraphs and in the guidance for laying Unnumbered Act Papers in the House of Commons Journal Office document *Guidance and Requirements for Laying Papers before the House of Commons and their Publication* (April 2009). Please note that the Journal Office guidance is aimed at Government Departments as well as organisations such as NHS foundation trusts. The physical act of laying the report before Parliament cannot be undertaken by NHS foundation trusts; this will be carried out by the Department of Health Parliamentary Clerk, who will also arrange for laying letters to be prepared.

The Journal Office document can be found at
http://www.tso.co.uk/documents/presentationToParliament-Publishing.pdf

Your foundation trust's report will be bound together in a series of reports by the House authorities and will be stored in perpetuity. It is therefore very important that reports are produced in the correct format for laying in Parliament. Reports that are not in the correct format will not be accepted for laying and you may be required to undertake re-printing. In particular, please note the following requirements:

- The annual report and accounts that each NHS foundation trust lays before Parliament must be one document. It might be that this is formed from two electronic files but the final PDF and bound hard copies must be presented as one document.

- The report must be predominately A4 portrait in layout (tables etc. may be in landscape orientation but printing the whole document in landscape is not allowed, even if paper is bound along the long side)

- The report must be securely bound. It should be saddle stitched (stapled through the spine) or perfect bound (glued into the cover). Comb or spiral binding is acceptable but presentation in a ring binder or any other variation of stapling is not.

- The report must have a front and back cover and title page.

- The front and back cover must be a normal paper/card cover, not plastic or transparent.

- The title page is the first inside facing page of the document. It should **only** contain:

- the full statutory name of the NHS foundation trust;
- the title of the document (e.g. *Annual Report and Accounts* ***2013~~2~~-14~~3~~***); and
- the wording “Presented to Parliament pursuant to Schedule 7, paragraph 25 (4) (a) of the National Health Service Act 2006.”

- The title of the document must be the same on the front cover as on the title page. The title must reflect the contents of the document, e.g. "Annual Report and Accounts 2013~~2~~-14~~3~~". Additional wording on the front cover (such as a short slogan) is permissible but this must be less prominent and not allowed to be confused with the title of the document.

- The title page must not be combined with a contents page, preface, or contain any other text or images.

- The reverse of the front cover, the reverse of the back cover, and the reverse of the title page, must all be kept blank.

- The back cover must contain no substantive text.

| | |
|---|---|
| Step 1 | You must check that the format of your report is acceptable **before** printing the final copies of the report. Please send a PDF copy of the report with your full contact details (email address and direct telephone number) to Tim.Elms@dh.gsi.gov.uk. Before sending, you might find the checklist at the end of this note helpful. You will receive a response to confirm that the format is acceptable and you can then proceed with printing. ***Given this is a check that the format is correct, this should be provided <u>in advance</u> of the deadline specified below.*** |
| Step 2<br><br>Documents must arrive by **Date TBC 2014** – see below. | When your annual report and accounts are ready to be laid and it has been confirmed that the format is correct, you must send five bound copies of the annual report and accounts to:<br><br>The Parliamentary Clerk<br>Department of Health<br>Room 301<br>Richmond House<br>79 Whitehall<br>London SW1A 2NS<br><br>On the package label, please clearly state the name of your NHS foundation trust. Please also include a named contact, telephone number and email address, in case of queries. Please also make sure that the package is secure so that it is not damaged in the post.<br><br>You must **also** email a final PDF of the report to be laid to the Department of Health Parliamentary team mailbox MB-SI@dh.gsi.gov.uk. **Your report will not be laid until this PDF has been received**. |

Your report will normally be laid within a few days of it being received by the Parliamentary Clerk. The period may be longer if a high volume of reports are received at the same time.

To check that your annual report and accounts have been laid before Parliament, visit the Parliament website:

http://www.parliament.uk/business/publications/business-papers/commons/votes-and-proceedings/

Select a date and go to ‘Votes and Proceedings’ (either the webpage or PDF) and look in the appendix for a list of papers laid that day. You may have to trawl through a number of dates until you find your annual report.

### Deadlines for laying documents before Parliament

All annual reports and accounts must be sent to **arrive at** the Parliamentary Clerk by ***Date TBC 2014~~3~~*** to allow sufficient time for laying before the parliamentary summer recess. Laying reports in good time before the Parliamentary recess ensures that there is opportunity for appropriate Parliamentary scrutiny. Reports and accounts will be welcomed for laying before ***Date TBC 2014~~3~~*** but **all** reports and accounts must be sent to the Parliamentary Clerk by this date. It is the trust's responsibility to ensure its report and accounts are laid.

### Checklist of formatting requirements

If the answer is "no" to any question below, your report is likely to be rejected for laying.

| | |
|---|---|
| Is the report laid out in A4 (tables may be in landscape if necessary)? | |
| Does the report have a front and back cover made of paper or card? | |
| Does the title page **only** contain:<br><br>• the full statutory name of the NHS foundation trust;<br><br>• the title of the document (e.g. *Annual Report and Accounts* ***201~~2~~3-1~~3~~4***); and<br><br>• the wording "Presented to Parliament pursuant to Schedule 7, paragraph 25 (4) (a) of the National Health Service Act 2006? | |
| Does the title page contain no other text or images? | |
| Is the title of the document the same on the front cover as on the title page? | |
| Are the reverse of the front cover, the reverse of the back cover, and the reverse of the title page, all blank? | |
| Does the back cover contain no substantive text? | |
| Will the annual report and accounts be produced as a single printed document and PDF? | |
| Will the printed document be perfect bound, saddle stitched, spiral bound or comb bound? | |

## Annex 3 to Chapter 1 – example Certificate on FT Consolidation Schedules

**FTC Summarisation Schedules for […] NHS Foundation Trust**

Summarisation schedules numbers FTC01 to FTC41 and accompanying WGA sheets for ***2013~~2~~/14~~3~~*** are attached.

**Finance Director Certificate**

1. I certify that the attached FTC schedules have been compiled and are in accordance with:
   - The financial records maintained by the NHS foundation trust; and
   - Accounting standards and policies which comply with the *NHS Foundation Trust Annual Reporting Manual* ***2013~~2~~/14~~3~~*** issued by Monitor
2. I certify that the FTC schedules are internally consistent and that there are no validation errors*.
3. I certify that the information in the FTC schedules is consistent with the financial statements of the NHS Foundation Trust [**except for [insert text highlighting where the schedules differ from the accounts and explain the differences]].

[signed]

[name], Finance Director

[Date] ***2013***

**Chief Executive Certificate**

1. I acknowledge the attached FTC schedules, which have been prepared and certified by the Finance Director, as the FTC schedules which the Foundation Trust is required to submit to Monitor.
2. I have reviewed the schedules and agree the statements made by the Finance Director above.

[signed]

[name], Chief Executive

[Date] ***201~~3~~4***

** If you are unable to eliminate validation errors after discussions with your auditors and contacting Monitor then amend this accordingly.*

*** Please insert the 'except for' clause only if applicable*

[for information this revised form of certificate has been provided by the National Audit Office who audit the Consolidated Accounts of NHS Foundation Trusts]

# 2. Financial reporting requirements

## International Financial Reporting Standards (IFRS)

2.1. Monitor has agreed that it will apply the principles outlined in HM Treasury's *FReM* when producing accounting guidance for NHS foundation trusts (paragraph 1.1.3 of the *FReM*). As the *FReM* is produced for a range of central Government departments and bodies, there are parts of it which are not applicable to NHS foundation trusts. This chapter highlights the parts of the guidance which are applicable to NHS foundation trusts and provides additional guidance where necessary.

2.2. This manual follows International Financial Reporting Standards (IFRS), as adopted by the European Union, to the extent that it is relevant and appropriate to NHS foundation trusts:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB);
- International Accounting Standards (IASs) issued by the predecessor International Accounting Standards Committee (IASC) and subsequently adopted by the IASB;
- Interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC) (previously IFRIC);
- Interpretations issued by the predecessor Standing Interpretations Committee (SIC) and subsequently adopted by IFRIC;
- the 'Framework for the Preparation and Presentation of Financial Statements' issued by the IASC and subsequently adopted by the IASB;
- certain requirements of the Companies Act 2006; and
- the body of accumulated knowledge built up over time and promulgated in text books, research papers and technical journals.

### EU-Adopted IFRS

2.3. EU-listed companies that prepare group accounts are required to do so in accordance with IFRS as adopted by the European Union rather than IFRS as published by the IASB. The adoption process sometimes creates a delay between the IASB or IFRIC issuing a pronouncement and its subsequent EU-adoption, during which time companies cannot early-adopt the new, or amended, requirements.

2.4. HM Treasury's approach in the *FReM* is to apply EU-adopted IFRS with some adaptations. Monitor has chosen to require NHS foundation trusts to apply IFRS as adopted by HM Treasury in the *FReM* except for certain departures which are listed in Annex 1 to this chapter.

### Users of the annual report and accounts

2.5. The information presented in the financial statements should be adequate for the needs of the key users of the financial statements. Users include, but are not limited to:

- Parliament, including relevant Select Committees;
- HM Treasury;
- Monitor and other regulatory bodies;
- the NHS foundation trust's council of governors;
- the NHS foundation trust's board of directors and audit committee;
- commissioning PCTs;
- patients and their carers;
- members of the NHS foundation trust; and
- the taxpayer.

2.6. The IASB's Framework for the Preparation and Presentation of Financial Statements sets out the principles that the IASB believes should underlie the preparation and presentation of financial statements for users. The preparers of NHS foundation trust annual report and accounts should familiarise themselves with these principles.

## Extant international accounting standards

2.7. The table below sets out all extant EU-adopted IFRS standards and interpretations applicable to NHS foundation trusts for this manual's financial reporting year. It provides references to the relevant guidance provided in the *FReM* and, where there is guidance relevant to NHS foundation trusts in this manual, the reference is also provided.

| Accounting standard | *FReM* reference | Additional guidance and reference to relevant guidance in this manual |
|---|---|---|
| **International Accounting Standards (IAS)** | | |
| 1 Presentation of Financial Statements | 2.2.10 to 2.2.15; & 5.4.5 to 5.4.18 & 5.4.32 to 5.4.53 | Paragraphs 3.1 to 3.8. ***The June 2011 amendment to the standard, in respect of the presentation of OCI, applies from 2013/14.*** |
| 2 Inventories | 10.2.2 to 10.2.8 | |
| 7 Statement of Cash Flows | 5.4.19 to 5.4.21 | Paragraphs 6.2 to 6.4 |
| 8 Accounting Policies, Changes in Accounting Estimates and Errors | 2.3.1 to 2.3.5 | Paragraphs 3.9 to 3.19 |
| 10 Events after the Reporting Period | 5.4.22 to 5.4.24 | Paragraph 3.233.273.273.23 |
| 11 Construction contracts | 11.3.8 to 11.3.9 | Unlikely to be relevant to NHS foundation trusts |
| 12 Income taxes | 11.4.1 to 11.4.5 | ***The December 2010 amendment to the standard applies from 2013/14.*** |
| 16 Property, Plant and Equipment | 6.2.2 to 6.2.43 | Paragraphs 5.2 to 5.145.165.165.14 |
| 17 Leases | 6.2.44 to 6.2.48 | Paragraphs 5.455.495.495.45 to 5.475.515.515.47 |
| 18 Revenue | 11.2.2 to 11.2.19 | Paragraphs 4.54.54.54.4 to 4.104.104.104.9 |
| ***19 Employee Benefits (Revised 2011)*** | ***10.2.9 to 10.2.10 & 12.2.2 to 12.2.5*** | ***Paragraphs 4.234.234.22 to 4.284.284.27. The new version of the standard applies from 2013/14.*** |
| 20 Accounting for Government Grants and Disclosure of Government Assistance | 6.2.68 to 6.2.74 | Paragraphs 4.154.154.144.13 to 4.184.184.174.16 |
| 21 The Effects of Changes in Foreign Exchange Rates | 11.3.10 to 11.3.14 | Unlikely to be relevant to NHS foundation trusts |
| 23 Borrowing costs | 6.2.75 to 6.2.77 | Paragraph 5.355.395.395.36 |
| 24 Related Party Disclosures | 5.4.5460 to 5.4.567 | Paragraphs 6.126.126.126.14 to 6.196.196.196.21 |
| 26 Accounting for Reporting by Retirement Benefit Plans | Not applicable to NHS foundation trusts | |
| 27 Consolidated and Separate Financial Statements (Revised) | 4.2.1 to 4.2.13 | Paragraphs 3.243.283.283.24 to 3.323.363.363.31 |
| 28 Investments in Associates | 4.2.1 to 4.2.13 | Paragraphs 3.393.433.423.32 to 3.403.443.433.33 |
| 29 Financial Reporting in Hyperinflationary Economies | 11.3.15 to 11.3.17 | Unlikely to be relevant to NHS foundation trusts |
| 31 Interests in Joint Ventures | 4.2.1 to 4.2.13 | Paragraphs 3.413.453.443.34 to 3.433.473.463.443.34 |
| 32 Financial Instruments: Presentation | 9.2.2 to 9.2.4 | Paragraph 5.525.565.565.52 |
| 33 Earnings per share | None | Unlikely to be relevant to NHS |

**Field Code Changed**

| Accounting standard | *FReM* reference | Additional guidance and reference to relevant guidance in this manual |
|---|---|---|
| | | foundation trusts |
| 34 Interim Financial Reporting | 5.1.8 to 5.1.9 | Not applicable to NHS foundation trusts |
| 36 Impairment of Assets | Chapter 8 | Paragraphs 5.255.295.295.26 to 5.345.385.385.35 |
| 37 Provisions, Contingent Liabilities and Contingent Assets | 10.2 11 to 10.2.167 | Paragraphs 5.565.605.605.56 to 5.645.685.685.64 |
| 38 Intangible Assets | Chapter 7 | Paragraphs 5.165.195.195.17 to 5.245.285.285.25 |
| 39 Financial Instruments: Recognition and Measurement | 9.2.5 to 9.2.8 | Paragraph 5.535.575.575.53 |
| 40 Investment Property | 6.2.78 to 6.2.80 | Paragraphs 5.485.525.525.48 to 5.495.535.535.49 |
| 41 Agriculture | 6.2.81 to 6.2.82 | Unlikely to be relevant to NHS foundation trusts |
| **International Financial Reporting Standards (IFRS)** | | |
| 1 First-time Adoption of IFRS | No longer applicable to NHS foundation trusts | |
| 2 Share-based Payment | None | Unlikely to be relevant to NHS foundation trusts |
| 3 Business Combinations (Revised) | 4.2.14 to 4.2.23 | Paragraphs 3.443.483.473.37 to 3.573.613.603.573.613.49 |
| 4 Insurance Contracts | 9.2.15 to 9.2.16 | Unlikely to be relevant to NHS foundation trusts |
| 5 Non-current Assets Held for Sale and Discontinued Operations | 6.2.83 to 6.2.85 | Paragraphs 4.374.374.364.35 to 4.394.394.384.37 |
| 6 Exploration for and Evaluation of Mineral Resources | None | Unlikely to be relevant to NHS foundation trusts |
| 7 Financial Instruments: Disclosures | 9.2.9 to 9.2.10 | ***The ~~October~~ December 20110 amendment to the standard in respect of ~~transfers of~~ offsetting of financial assets and liabilities ~~is~~ appliescable from 20132/143*** |
| 8 Operating Segments | 5.4.25 to 5.4.29 | Paragraphs 4.334.334.324.31 to 4.364.364.354.34 |
| ***13 Fair Value measurement*** | ***TBC*** | ***~~Paragraphs to . New standard applicable from 2013/14.~~New standard not yet adopted into the HMT FReM*** |
| Annual Improvements to IFRS 2009 | None | ~~Included a significant change to IAS 17 Leases which was effective from 2010/11.~~ |
| Annual Improvements to IFRS 2010 | None | ~~No changes which are likely to have a significant effect on NHS foundation trusts. For reference, the following standards have been~~ |

| Accounting standard | *FReM* reference | Additional guidance and reference to relevant guidance in this manual |
|---|---|---|
| | | ~~amended:~~<br>• ~~IFRS 3 Business Combinations~~<br>• ~~IFRS 7 Financial Instruments: Disclosures~~<br>• ~~IAS 1 Presentation of Financial Statements~~<br>• ~~IAS 27 Consolidated and Separate Financial Statements~~<br>• ~~IAS 34 Interim Financial Reporting~~<br>~~IFRIC 13 Customer Loyalty Programmes~~ |
| **SIC Interpretations** | | |
| 7 Introduction of the Euro | ~~None~~11.3.14 | Not applicable to NHS foundation trusts |
| 10 Government Assistance - No Specific Relation to Operating Activities | 6.2.70 to 6.2.71 | Unlikely to be relevant to NHS foundation trusts |
| 12 Consolidation - Special Purpose Entities | 4.2.10 | |
| 13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers | 4.2.11 | |
| 15 Operating Leases - Incentives | 6.2.46 | |
| 21 Income Taxes - Recovery of Non-Depreciable Assets | 11.4.4 | |
| 25 Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | 11.4.5 | Unlikely to be relevant to NHS foundation trusts |
| 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease | 6.2.47 | |
| 29 Disclosure - Service Concession Arrangements | 6.2.67 | Relevant. See paragraph 5.41~~5.455.455.41~~ |
| 31 Revenue - Barter Transactions Involving Advertising Services | 11.2.4 | |
| 32 Intangible Assets - Web site costs | 7.2.7 | |
| **IFRIC Interpretations** | | |
| 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities | 10.2.17~~8~~ to 10.2.18~~9~~ | |
| 2 Members' Shares in Co-operative Entities and Similar Instruments | 9.2.11 to 9.2.12 | Unlikely to be relevant to NHS foundation trusts |
| 4 Determining whether an Arrangement contains a Lease | 6.2.48 | Paragraphs 5.46~~5.505.505.46~~ to 5.47~~5.515.515.47~~ |
| 5 Rights to Interests arising from Decommissioning, Restoration and | 10.2.19~~20~~ to | Unlikely to be relevant to NHS |

| Accounting standard | | *FReM* reference | Additional guidance and reference to relevant guidance in this manual |
|---|---|---|---|
| | Environmental Rehabilitation Funds | 10.2.21~~2~~ | foundation trusts |
| 6 | Liabilities arising from Participating in a Specific Market: Waste Electrical and Electronic Equipment | None | Not applicable to NHS foundation trusts |
| 7 | Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economies* | 11.3.18 | Unlikely to be relevant to NHS foundation trusts |
| 8 | Scope of IFRS 2 | None | Unlikely to be relevant to NHS foundation trusts |
| 9 | Re-assessment of Embedded Derivatives | 9.2.13 to 9.2.14 | |
| 10 | Interim Financial Reporting and Impairment | None | Not applicable |
| 11 | IFRS 2 - Group and Treasury Share Transactions | None | Unlikely to be relevant to NHS foundation trusts |
| 12 | Service Concession Arrangements | 6.2.49 to 6.2.66 | Relevant. See Paragraph 5.36~~5.405.405.37~~ |
| 13 | Customer Loyalty Programmes | None | Unlikely to be relevant to NHS foundation trusts |
| 14 | IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | None | Potentially relevant to any pension schemes which are accounted for as defined benefit e.g. a Local Government scheme.<br>Note: an amendment to the IFRIC in relation to prepayment of minimum funding requirements is applicable from 2011/12. |
| 15 | Agreements for the Construction of Real Estate | None | Unlikely to be relevant to NHS foundation trusts |
| 16 | Hedges of a Net Investment in a Foreign Operation | None | Unlikely to be relevant to NHS foundation trusts |
| 17 | Distributions of Non-cash Assets to Owners | None | Unlikely to be relevant to NHS foundation trusts |
| 18 | Transfers of Assets from Customers | None | Unlikely to be relevant to NHS foundation trusts |
| 19 | Extinguishing financial liabilities with equity instruments | 9.2.17 | Not applicable to NHS foundation trusts |
| ***20*** | ***Stripping costs in the production phase of a surface mine*** | ***None*** | ***Unlikely to be relevant to NHS foundation trusts*** |

## Other relevant accounting pronouncements

2.8. Certain types of transactions, for which there are no relevant requirements under IFRS, should be accounted for using the appropriate UK GAAP requirements. These transactions are set out in the following table:

| **Transactions not covered by IFRS requirements** | **Accounting requirements to be applied by NHS foundation trusts** | ***FReM* reference** | Additional guidance and reference to relevant guidance in this manual |
|---|---|---|---|
| Accounting for value added tax (VAT). | SSAP 5 | None | None |
| Accounting for Heritage Assets | FRS 30 Heritage Assets | 6.2.24 to 6.2.43 | 5.15~~5.175.175.15~~ to ~~5.185.185.16~~ |

## Companies Act 2006 requirements

2.9. Although the use of IFRS means that the main accounting requirements of the Companies Act 2006 do not apply, there are nevertheless some disclosure requirements that remain applicable to UK entities reporting under IFRS, including NHS foundation trusts.

2.10. The key requirements are set out in the table below. However, the list is not exhaustive and, as with the existing *FReM* and Companies Act, NHS foundation trusts need to ensure they comply with all relevant disclosure requirements of the Companies Act 2006.

| **CA 2006 Reference** | **Regulations[1] Reference** | **Description** | **Reference to relevant Guidance in this manual** |
|---|---|---|---|
| Section 409 | Regulation 7 and Schedule 4 | Information about related undertakings in a note to the accounts | Paragraph 6.20~~6.206.206.22~~ |
| Section 410A[2] | | Information about off-Statement of Financial Position arrangements in a note to the accounts | Paragraphs 5.43~~5.475.475.43~~ to 5.44~~5.485.485.44~~. |
| Section 411 | | Information about employee numbers and costs in a note to the accounts | Paragraphs 4.46~~4.464.454.46~~ to 4.49~~4.494.484.49~~. |
| Section 412 (1) to (5) | Regulation 8 and Schedule 5 | Information about directors' benefits: remuneration, in a note to the accounts | Paragraphs 4.42~~4.424.414.42~~ to 4.45~~4.454.444.45~~. |
| Section 413 | | Information about directors' benefits: advances, credit and guarantees, in a note to the accounts | Paragraphs 4.42~~4.424.414.42~~ to 4.45~~4.454.444.45~~. |
| Sections: 415(1) to (3) 416 to 417; 418(1) to (4);and 419(1). | Regulation 10 and Schedule 7 | Directors' report | Chapter 7. |

Field Code Changed

| CA 2006 Reference | Regulations[1] Reference | Description | Reference to relevant Guidance in this manual |
|---|---|---|---|
| Sections:<br>420(1);<br>421(1) to (2);and<br>422(1). | Regulation 11 and Schedule 8 | Quoted Companies: Directors' Remuneration Report | Chapter 7. |
| Section 428 | "The Companies (Summary Financial Statement) Regulations 2008": Part 3 and Schedule 7 or 8 | Form and contents of summary financial statement: quoted companies<br>*(applicable only if an NHS foundation trust chooses to prepare an additional Annual Report and Summary Financial Statement)* | If an NHS foundation trust chooses to prepare an Annual Report and Summary Financial Statement, the requirements and interpretations in paragraphs 1.26 to 1.29 must be followed. |

[1] "The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)"

[2] Inserted in the Act by "The Companies Act 2006 (Accounts and Reports) (Amendment) Regulations 2008 (SI 2008/393)".

## Accounting standards and amendments issued but not yet adopted in the ARM

~~2.10.~~2.11. Where the IASB has issued amendments to standards, NHS foundation trusts should apply those amendments in accordance with the applicable timetable, but should not seek to early-adopt any changes.

~~2.11.~~2.12. The following table lists changes to standards issued by the IASB up to the date of publication of this manual which have not yet been adopted herein:

| Change published | Published by IASB | Financial year for which the change first applies |
|---|---|---|
| IFRS 9 Financial Instruments<br>~~Financial Assets:~~<br>~~Financial Liabilities:~~ | ~~November 2009~~<br>October 2010 | Uncertain. Not likely to be adopted by the EU until the IASB has finished the rest of its financial instruments project. |
| IFRS 10 Consolidated Financial Statements | May 2011 | Effective ~~date of~~from 2014~~3~~/15*~~4 but not yet adopted by the EU~~. |
| IFRS 11 Joint Arrangements | May 2011 | Effective from~~date of~~ 2014~~3~~/15*~~4 but not yet adopted by the EU~~. |
| IFRS 12 Disclosure of Interests in Other Entities | May 2011 | Effective from~~date of~~ 2014~~3~~/15*~~4 but not yet adopted by the EU~~. |
| ~~IFRS 13 Fair Value Measurement~~ | ~~May 2011~~ | ~~Effective date of 2013/14 but not yet adopted by the EU.~~ |
| ~~IAS 12 Income Taxes amendment~~ | ~~December 2010~~ | ~~Effective date of 2012/13 but not yet adopted by the EU.~~ |
| ~~IAS 1 Presentation of financial statements, on other comprehensive income (OCI)~~ | ~~June 2011~~ | ~~Effective date of 2013/14 but not yet adopted by the EU.~~ |

| Change published | Published by IASB | Financial year for which the change first applies |
|---|---|---|
| IAS 27 Separate Financial Statements | May 2011 | Effective from~~date of~~ 20143/15*~~4 but not yet adopted by the EU~~. |
| IAS 28 Associates and joint ventures. | May 2011 | Effective from~~date of~~ 20143/15*~~4 but not yet adopted by the EU~~. |
| ~~IAS 19 (Revised 2011) Employee Benefits~~ | ~~June 2011~~ | ~~Effective date of 2013/14~~ |
| IAS 32 Financial Instruments: Presentation - amendment<br>Offsetting financial assets and liabilities | December 2011 | Effective from~~date of~~ 2014/15~~ but not yet adopted by the EU~~. |
| ~~IFRS 7 Financial Instruments: Disclosures – amendment~~<br>~~Offsetting financial assets and liabilities~~ | ~~December 2011~~ | ~~Effective date of 2013/14 but not yet adopted by the EU.~~ |

* This reflects the EU-adopted effective date rather than the effective date in the standard.

## Annex 1 to Chapter 2: Departures from the *FReM*

HM Treasury accept that the following are fundamental differences between NHS foundation trusts and Government departments rendering some requirements in the *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. ~~Individual NHS foundation trusts are required to comply with the *Prudential Borrowing Code*~~ |
| Have cash limits | NHS foundation trusts ~~are required to comply with the *Prudential Borrowing Code* but~~ 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 |
| Departments do not present their reports and accounts at public meetings | The annual report and financial statements of individual NHS foundation trusts are laid before Parliament and presented at a public meeting |

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)).<br><br>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 *FReM* 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). |

## Annex 2 to Chapter 2: Main differences between NHS trust and NHS foundation trust accounts

### Main differences between NHS trust and NHS foundation trust accounts

This table is intended to assist new NHS foundation trusts to identify the main differences between the disclosure requirements for NHS trusts and NHS foundation trusts.

Some information disclosed in the accounts of an NHS trust may be collected in the FTCs for consolidation purposes but does not necessarily need to be disclosed in an NHS foundation trust's accounts.

| | |
|---|---|
| **~~Main statements~~** | |
| ~~Statement of Cash Flows~~ | ~~Additional sections may need to be added to recognise the different financing arrangements for NHS foundation trusts.~~ |
| **Notes to the accounts** | |
| Accounting policies | This note will have to be adapted to suit the policies adopted by the NHS foundation trust. Example policies are appended to Chapter 3 but these must be tailored by each body for their own circumstances. |
| Revenue from patient care activities | The analysis of income may be different as NHS foundation trusts may chose to analyse income by activity rather than source as this is the requirement for the quarterly returns to Monitor.<br>NHS foundation trusts are also required to disclose their income from mandatory and non-mandatory services. |
| Better payment practice code and late payment of commercial debt disclosures | This note is not required in the accounts of NHS foundation trusts although it can be included if the NHS foundation trust considers it best practice. It should be included in the Annual Report of the NHS foundation trust if it is not included in the accounts. |
| ~~Interest payable and similar charges~~ | ~~NHS foundation trusts will also have to disclose their performance against the *Prudential Borrowing Code*.~~ |
| Property, Plant and Equipment | NHS foundation trusts should disclose all property, plant and equipment on a gross basis with accumulated depreciation. The opening accumulated depreciation balance will be the amount brought forward from the previous year other than in the year of a revaluation. NHS trusts are required to reset brought forward accumulated depreciation to nil on some occasions. |
| Financial performance targets | The standard NHS trust note is not required but it ~~should~~ can be replaced by a statement of performance against the NHS foundation trust's own financial targets.~~, for example, the prudential borrowing limit.~~ |
| Intra government balances | NHS trusts are required to disclose intra government balances which NHS foundation trusts are not required to disclose. |

# 3. Financial statements - General

## Introduction

3.1. NHS foundation trusts have discretion over the form of financial statements that they consider to be most appropriate to meet their own reporting needs, as long as the requirements of IFRS, as supplemented or amended by this manual, are met. A well-presented set of accounts will include all of the information required by the reader of the accounts to understand the financial position of the NHS foundation trust for the period. It will include only information relevant to its situation and will be appropriately cross referenced.

3.2. NHS foundation trusts are, however, required to complete foundation trust consolidation reports (FTC forms), which need to be prepared on a consistent basis in order to support the preparation of consolidated accounts of NHS foundation trusts.

3.3. This chapter provides guidance on:

- the application of IFRS to NHS foundation trusts and additional disclosures, beyond the requirements of IFRS, that are mandatory for all NHS foundation trusts in their financial statements; and

- the completion of FTC forms (additional guidance is set out in the FTC completion instructions).

3.4. This chapter does not provide guidance on IFRS where there are no specific application issues for NHS foundation trusts. It is therefore essential that NHS foundation trusts review relevant accounting requirements when preparing their financial statements.

3.5. NHS foundation trusts must, at a minimum, ensure that they include in their accounts a Statement of Comprehensive Income, a Statement of Financial Position, a Statement of Changes in Taxpayers' Equity and a Statement of Cash Flows. These are the four primary statements. NHS foundation trusts must include the headings provided in the FTC forms for all the primary statements. However, there is no requirement to include in the accounts notes with nil entries or lines in notes which are not applicable to that individual NHS foundation trust.

3.6. NHS foundation trusts must also include notes to the accounts corresponding to those notes included in the FTC forms, unless explicitly not required for example because these are nil or immaterial disclosures, as agreed with the NHS foundation trust's own auditors. The content of these notes, however, need not follow the format of the FTC forms, as long as the NHS foundation trust complies with IFRS and the additional requirements of this manual. The FTC forms must be consistent with the accounts. This means that they should be prepared using the same accounting policies and the same amounts should be disclosed in both the accounts and FTCs. The FTCs also collect additional information which is not expected to be replicated in an NHS foundation trust's accounts, but may be included at an NHS foundation trust's discretion if agreed with the NHS foundation trust's own auditors. These additional tables are given 'table' rather than 'note' numbers in the FTCs.

### Materiality

3.7. IAS 8 notes that accounting requirements in the standards need not be applied to immaterial items, but also notes that "it is inappropriate to make, or leave uncorrected, immaterial departures from IFRS to achieve a particular presentation of an entity's financial position, financial performance or cash flows".

3.8. Similarly, IAS 1 notes that specific disclosure requirements of IFRS need not be satisfied if the information is not material. Both IAS 1 and 8 define materiality as follows:

"Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size and nature of the item, or a combination of both, could be the determining factor."

## Accounting policies

### Selection of accounting policies

3.9. In accordance with IAS 8, suitable accounting policies should be selected which provide the most relevant and reliable information in respect of the NHS foundation trust's activities. Example accounting policies are included in Annex 1 to this chapter,

3.10. Where a standard or interpretation applies specifically to a transaction, event or condition, the accounting policy or policies is to be determined by from the relevant pronouncement, including its application guidance.

3.11. In the absence of a specific standard or interpretation, paragraphs 10 to 12 of IAS 8 describe the approach that management should take to formulating an accounting policy, including the hierarchy of guidance to which it should refer.

### Changes in accounting policy

3.12. An entity may change an accounting policy only where it is required by a new standard or interpretation (including any revisions to this *FT ARM)* or voluntarily only if it results in the financial statements providing reliable and more relevant information about transactions, events, conditions, or the entity's financial position, financial performance or cash flows.

3.13. Changes in accounting policy arising from the introduction of a new standard or interpretation shall be implemented in accordance with the specific transitional provisions, if any, of that standard or interpretation. Where no such specific transitional provisions exist, or where an accounting policy is changed voluntarily, the change must be applied retrospectively i.e. through a prior period adjustment.

3.14. IAS 8 requires that prior period adjustments should be effected by restating each element of equity (reserves) at the start of the prior year as if the accounting policy had always applied.

3.15. Any difference between the reported financial results and the adjusted financial results should be reported, as described in the standard. This disclosure should be replicated in the free text sheets of the FTCs.

3.16. Where an NHS foundation trust has to make a prior period adjustment (for any reason other than an adjustment required by the *FT ARM*), they should inform Monitor so that the appropriate information can be collected for consolidation.

### Errors in the financial statements

3.17. All material errors identified in a previous year's financial statements must be corrected through a prior period adjustment except to the extent that, it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

### Key sources of judgement and estimation uncertainty

3.18. Under IAS 1, entities must disclose key areas where the underlying estimates in the accounts are subject to uncertainties which create a significant risk of causing a material uncertainty. It will be for each NHS foundation trust to decide which uncertainties require disclosure in this way, but examples might include:

- Actuarial assumptions in respect of post-employment benefits.
- Assumptions underlying the likelihood and outcome of material provisions.
- Assumptions regarding the valuation of investment properties.

### Future changes in accounting policy

3.19. Where a new standard or interpretation has been issued, but has not yet been implemented, IAS 8 requires disclosure in the accounts of this fact and the known or reasonably estimated impact that its application will have in the period of initial application. 'Issued' should be interpreted as having been issued by the IASB or IFRIC, even if the EU has not yet adopted the standard, together with published changes to future versions of the Treasury *FReM*.

### Going concern

~~3.19.~~3.20. IAS 1 requires management to assess, as part of the accounts preparation process, the NHS foundation trust's ability to continue as a going concern. The financial statements should be prepared on a going concern basis unless management either intends to apply to the Secretary of State for the dissolution of the NHS foundation trust without the transfer of the services to another entity, or has no realistic alternative but to do so.

~~3.20.~~3.21. Where management are aware of material uncertainties in respect of events or conditions that cast significant doubt upon the going concern ability of the NHS foundation trust, these should be disclosed.

### Comparative amounts

~~3.21.~~3.22. Unless otherwise relieved by the provisions of an individual standard, IAS 1 requires the disclosure of comparative information for all primary statements and notes to the accounts.

### Events after the reporting period (IAS 10)

~~3.22.~~3.23. IAS 10 sets out the requirements for addressing events after the end of the reporting period. As noted later in this manual, Public Dividend Capital is interpreted not to be a financial instrument within the meaning of IAS 32 and 39. PDC dividends do not represent equity distributions and therefore any part of such a dividend paid after the end of the financial year to which it relates should be accrued as a liability in the Statement of Financial Position.

## Consolidated accounts

### Subsidiaries (IAS 27 (revised))

~~3.23.~~3.24. When determining the need to prepare consolidated accounts, NHS foundation trusts should apply the definitions of a 'subsidiary' and of 'control' as set out in paragraph 4 of IAS 27 (revised), together with the guidance in paragraphs 13 to 15 in the standard.

~~3.24.~~3.25. If the NHS foundation trust~~it is~~ determine**s**~~d~~ that an entity is a subsidiary ~~body to the NHS foundation trust~~ then it ~~should be~~ consolidates the subsidiary~~d~~ in accordance with IAS 27 (revised).

~~3.25.~~3.26. The ***NHS foundation trust's annual report and accounts then includes both the group accounts and the NHS foundation trust's individual accounts.***~~consolidated accounts should include:~~

- ~~a consolidated Statement of Financial Position, dealing with the NHS foundation trust and its subsidiary;~~
- ~~a consolidated Statement of Comprehensive Income;~~
- ~~a consolidated Statement of Changes in Taxpayers' Equity;~~
- ~~a consolidated Statement of Cash Flows; and~~
- ~~notes to the consolidated accounts.~~

### NHS charitable funds

~~3.26.~~3.27. Where, for instance, an NHS foundation trust is a corporate trustee of an NHS charitable fund, the NHS foundation trust needs to consider whether that charitable fund represents a subsidiary. This is likely to be the case where the NHS foundation trust both:

- has control over the NHS charitable fund (as determined by IAS 27 (revised)); and
- benefits from the NHS charitable fund. This will be determined by consideration of the NHS charitable fund's objectives. Where those objectives are directly aligned with those of the NHS foundation trust it would be difficult to argue that there is no benefit to the NHS foundation trust.

~~3.27.~~3.28. HM Treasury ~~has~~ ***previously*** granted dispensation to the application of IAS 27 (revised) by NHS foundation trusts solely in relation to the consolidation of NHS charitable funds ~~for 2011/12 and 2012/13~~. ~~The disclosure requirements of the standard will, however, apply should the NHS charitable fund be considered to be a subsidiary of the NHS foundation trust.~~

3.29. From 2013/14, ***the Treasury dispensation is no longer available and*** NHS foundation trusts ~~will~~ ***therefore*** need to consolidate any ***material*** NHS charitable funds which they determine to be subsidiaries. ***This represents a change in accounting policy and should be accounted for as such, in accordance with IAS 8.***

### ***Practical issues***

~~3.28.~~3.30. As the financial statements prepared by the funds under the Charity SORP are UK GAAP-based, the NHS foundation trust ~~will~~ needs to identify and apply adjustments on consolidation to convert the amounts to ***comply with its own accounting policies in accordance with this manual***~~comply with the FT ARM (i.e. IFRS-based)~~. This conversion may require, for example, the recognition of new assets and liabilities; the de-recognition of existing assets and liabilities; and changes in measurement methods. It might also require the collection of information not routinely captured at present by the charitable funds.

~~3.29.~~3.31. Assets, liabilities, transactions, gains and losses between the charitable funds and the NHS foundation trust will need to be eliminated on consolidation.~~The consolidation in 2013/14 will also apply to the 2012/13 comparative amounts included in the 2013/14 financial statements. NHS foundation trusts may wish to make an early start, for example by identifying the adjustments needed to the 1 April 2012 balance sheet of the charitable fund to put it onto an FT ARM-compliant basis. This may help identify early any areas of difficulty or where additional information needs to be collected or compiled.~~

~~3.30.~~3.32. ~~Where an NHS charitable fund is consolidated into the accounts of an NHS foundation trust, s~~Separate charity accounts ~~will~~ still need to be prepared in accordance with the Charities SORP and submitted to the Charity Commission.

***Presentation***

3.33. ***In the statement of financial position, the NHS foundation trust should present the charitable unrestricted funds, restricted funds and endowments as a single item of charitable reserves.***

3.34. ***Additional line items are likely to be needed in the statement of comprehensive income, statement of cash flows and supporting notes to record charitable income.***

3.35. ***[Exact format of presentation is subject to consultation] The primary statements and notes to the accounts should be presented with separate 'Group' and 'Foundation Trust' columns. The 'Foundation Trust' column will be the entity values only.***

***Disclosure***

3.36. ***The foundation trust should include the disclosures required by IAS 27 and by the Companies Act 2006 (section 407 and regulation 7 and schedule 4 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 – SI 2008/410).***

3.37. ***IAS 8 also requires disclosures about the change in accounting policy, including the nature of the change and the effect on the current and prior periods. In doing so, NHS foundation trusts may find it helpful to the reader to disclose:***

***a) A summary statement of comprehensive income for the charitable fund; and***

***b) A summary statement of financial position for the charitable fund.***

***As additional information for the user of the accounts, it is expected these summary statements would be on a UK GAAP basis before group eliminations.***

3.38. ***NHS foundation trusts should provide an analysis of the charitable reserve reported in the group statement of financial position between unrestricted funds; restricted funds; and endowment funds, and an explanation of each***

**Comment [IR1]:** This will be subject to consultation. Also need to address the presentation where an FT has other subsidiaries of its own and whether these can be added to a renamed 'Foundation Trust' column.

**Comment [WU2]:** This additional disclosure suggestion will be subject to consultation

***fund.***

### Associates (IAS 28)

~~3.31.~~3.39. An entity is an associate of an NHS foundation trust where the trust has significant influence over it, and yet the entity is not a subsidiary or a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the entity, but is neither control nor joint control over the policies. It is therefore, sufficient for the NHS foundation trust merely to have the power to exercise significant influence in order for the entity to be an associate, regardless of whether the power is actually used in practice.

~~3.32.~~3.40. Where an associate exists, the NHS foundation trust must recognise its activities through the equity accounting method in accordance with IAS 28.The use of the equity method for associates is required even where the NHS foundation trust is not already preparing consolidated accounts. Where, however, an associate is classified as 'held for sale' in accordance with IFRS 5, it shall instead be accounted for in accordance with the requirements of that standard.

### Joint ventures (IAS 31)

~~3.33.~~3.41. Joint ventures are arrangements where two or more parties undertake economic activities under joint control. Joint control, in turn, is a contractually agreed sharing of control such that the strategic operational and financial decisions require the unanimous consent of all parties. Joint ventures comprise jointly controlled operations; jointly controlled assets and jointly controlled entities.

~~3.34.~~3.42. Jointly controlled operations and jointly controlled assets do not involve the creation of a separate corporate entity. Where an NHS foundation trust is a party to either of these arrangements, it should recognise its share of the assets, liabilities, income and expenses in its own accounts.

~~3.35.~~3.43. Where an NHS foundation trust is a party to a jointly controlled entity, it must recognise its share in its accounts either through the proportional consolidation method or through the equity method. Where, however, a jointly controlled entity is classified as 'held for sale' in accordance with IFRS 5, it shall instead be accounted for in accordance with the requirements of that standard.

## Business Combinations

**Business combinations involving an NHS foundation trust and another entity within the Whole of Government Accounts (WGA) boundary**

~~3.36.~~3.44. Where an NHS foundation trust transfers a function to, or receives a function from another entity within the Whole of Government Accounts boundary this represents a 'machinery of government change' regardless of the mechanism used to effect the combination e.g. statutory merger or purchase of the business.

~~3.37.~~3.45. For these purposes, a function is defined as "an identifiable business operation with an integrated set of activities, staff and recognised assets and/or liabilities that are capable of being conducted and managed to achieve the objectives of that business operation".

~~3.38.~~3.46. NHS foundation trusts will normally account for a machinery of government change as a Transfer by Absorption. This includes all transfers of functions involving other bodies within the Department of Health's Resource Accounting Boundary and transfers of functions involving local government bodies.

~~3.39.~~3.47. Very rarely, an NHS foundation trust may need to account for a machinery of government as a 'transfer by merger' if the transfer with the other body is one that meets the criteria for merger accounting in the FReM. The FReM also describes the required accounting in such cases..

***Transfer by Absorption***

~~3.40.~~3.48. Where an NHS foundation trust is the recipient in the transfer of a function, it recognises the assets and liabilities received as at the date of transfer. The assets and liabilities are not adjusted to fair value prior to recognition. The corresponding net credit / debit reflecting the gain / loss is recognised within income / expenses, but outside of operating activities.

~~3.41.~~3.49. The pre-transfer income, expenses, assets and liabilities of the NHS foundation trust are not adjusted to include any pre-transfer activity of the function.

~~3.42.~~3.50. For property plant and equipment assets and intangible assets, the Cost and Accumulated Depreciation / Amortisation amounts from the transferring entity's accounts are preserved when the assets are recognised in the NHS foundation trust's accounts.

~~3.43.~~3.51. Where any assets received had an attributable revaluation reserve balance in the transferring entity's accounts, this is preserved in the NHS foundation trust's accounts by it transferring the relevant amount from its income and expenditure reserve to its revaluation reserve.

Example:

During the financial year, an NHS foundation trust is the recipient of a transfer of a function from a Primary Care Trust that meets the definition of a machinery of government change. The function is received on 1 February. The net assets received are £40m. These net assets have an associated revaluation reserve balance in the Primary Care Trust's accounts of £12m.

On 1 February the NHS foundation trust recognises the £40m net assets in its statement of financial position. It also recognises a gain of £40m which it records as income. This income is material and therefore the trust decides to present it in the statement of comprehensive income as a separate item below Finance Costs but within the overall surplus/deficit.

The trust then transfers £12m from its income and expenditure reserve to its revaluation reserve, and reports this transfer in the statement of changes in taxpayers' equity.

~~3.44.~~3.52. Transfers are recorded based on the book values of assets and liabilities transferring. Adjustments to values as a result of harmonising accounting policies are made immediately after this initial transfer, and are adjusted directly in taxpayers' equity. It is recommended NHS foundation trusts explain the effects of these changes in a note to their accounts.

~~3.45.~~3.53. Where, instead the NHS foundation trust is the body relinquishing the function, the opposite accounting entries apply. It de-recognises the assets and liabilities as at the date of transfer and recognises the corresponding net debit / credit as a loss / gain in expenses / income but not within operating activities. Any revaluation reserve balances attributable to the assets transferred are removed from the revaluation reserve and transferred to the income and expenditure reserve.

~~3.46.~~3.54. The pre-transfer activities of the function remain in the NHS foundation trust's accounts. The only adjustments made are in respect of the assets and liabilities actually transferring, as described above.

### Disclosures

~~3.47.~~3.55. The NHS foundation trust receiving the transfer of functions discloses:

- the fact that the transfer has taken place;
- a brief description of the transfer, including:
    - the date of the transfer;
    - the name of the body that transferred the function; and
    - the effect on the financial statements.;
- the historical financial performance of the function, to enable users to understand the operational performance.

~~3.48.~~3.56. Where the substance of the transaction is effectively one of an acquisition, the NHS foundation trust should consider whether some, or all, of the IFRS 3 Business Combinations disclosures are needed to provide readers with a proper understanding of the transaction.

### Acquisition of a business from outside of the Whole of Government Accounts boundary

~~3.49.~~3.57. Where an NHS foundation trust acquires a business from outside of the Whole of Government Accounts boundary, it should be accounted for in accordance with IFRS 3.

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## Annex 1 to Chapter 3: Example IFRS accounting policies

This annex provides an example accounting policies note that NHS foundation trusts may wish to use as the basis for their own disclosure of accounting policies. As these are only examples they **must be adapted to fit the circumstances of each organisation** – i.e. an organisation should include any additional accounting policies adopted locally and exclude policies which are not relevant to that organisation.

### Example accounting policies note (applicable to the accounts of an individual NHS foundation trust)

### Accounting policies and other information

Monitor has directed that the financial statements of NHS foundation trusts shall meet the accounting requirements of the *FT ARM* which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the *FT ARM* ***2013~~2~~/14~~3~~*** issued by Monitor. The accounting policies contained in that manual follow International Financial Reporting Standards (IFRS) and HM Treasury's *FReM* to the extent that they are meaningful and appropriate to NHS foundation trusts. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

**Accounting convention**
These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets, inventories and certain financial assets and financial liabilities.

### 1 Consolidation

***[NHS Charitable Fund***

***The foundation trust is the corporate trustee to [xxxx] NHS charitable fund. The foundation trust has assessed its relationship to the charitable fund and determined it to be a subsidiary because the foundation trust has the power to govern the financial and operating policies of the charitable fund so as to obtain benefits from its activities.***

***Prior to 2013/14, the FT ARM permitted the foundation trust not to consolidate the charitable fund. From 2013/14, the foundation trust has consolidated the charitable fund and has applied this as a change in accounting policy.***

***The charitable fund's statutory accounts are prepared to 31 March in accordance with the UK Charities Statement of Recommended Practice (SORP) which is based on UK Generally Accepted Accounting Principles. On consolidation, necessary adjustments are made to the charity's assets, liabilities and transactions to***

- ***recognise and measure them in accordance with the foundation trust's accounting policies; and***
- ***eliminate intra-group transactions, balances, gains and losses.]***

**[*Other* Subsidiaries**

Subsidiary entities are those over which the trust has the power to exercise control or a dominant influence so as to gain economic or other benefits. The income, expenses, assets, liabilities, equity and reserves of subsidiaries are consolidated in full into the appropriate financial statement lines. The capital and reserves attributable to minority interests are included as a separate item in the Statement of Financial Position.

The amounts consolidated are drawn from the published financial statements of the subsidiaries for the year [except where a subsidiary's financial year end is before 1 January or after 1 July in which case the actual amounts for each month of the trust's financial year are obtained from the subsidiary and consolidated.]

Where subsidiaries' accounting policies are not aligned with those of the trust (including where they report under UK GAAP) then amounts are adjusted during consolidation where the differences are material. ***Inter-entity balances, transactions and gains/losses are eliminated in full on consolidation.***

Subsidiaries which are classified as held for sale are measured at the lower of their carrying amount and 'fair value less costs to sell'.]

~~[Until 31 March 2013, NHS charitable funds considered to be subsidiaries are excluded from consolidation in accordance with the accounting direction issued by Monitor.]~~

### [Associates

Associate entities are those over which the Trust has the power to exercise a significant influence. Associate entities are recognised in the Trust's financial statement using the equity method. The investment is initially recognised at cost. It is increased or decreased subsequently to reflect the trust's share of the entity's profit or loss or other gains and losses (e.g. revaluation gains on the entity's property, plant and equipment) following acquisition. It is also reduced when any distribution e.g. share dividends are received by the trust from the associate.

Associates which are classified as held for sale are measured at the lower of their carrying amount and 'fair value less costs to sell'.]

### [Joint ventures

Joint ventures are separate entities over which the trust has joint control with one or more other parties. The meaning of control is the same as that for subsidiaries [*or* if no subsidiaries insert the wording from above].

Joint ventures are accounted for [by consolidating the trust's share of the transactions, asset, liabilities, equity and reserves of the entity] [*or:* using the equity method].

Joint ventures which are classified as held for sale are measured at the lower of their carrying amount and 'fair value less costs to sell'.]

### [Joint operations

Joint operations are activities which are carried on with one or more other parties but which are not performed through a separate entity. The trust includes within its financial statements its share of the activities, assets and liabilities.]

## 2 Income

Income in respect of services provided is recognised when, and to the extent that, performance occurs and is measured at the fair value of the consideration receivable. The main source of income for the trust is contracts with commissioners in respect of healthcare services.

Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

Income from the sale of non-current assets is recognised only when all material conditions of sale have been met, and is measured as the sums due under the sale contract.

## 3 Expenditure on employee benefits

### Short-term employee benefits

Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees. The cost of annual leave entitlement earned but not taken by employees at the end of the period is recognised in the financial statements to the extent that employees are permitted to carry-forward leave into the following period.

### *Pension costs*

*NHS Pension Scheme*

Past and present employees are covered by the provisions of the NHS Pension Scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, general practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. It is not possible for the NHS foundation trust to identify its share of the underlying scheme liabilities. Therefore, the scheme is accounted for as a defined contribution scheme.

Employers pension cost contributions are charged to operating expenses as and when they become due.

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. The full amount of the liability for the additional costs is charged to the operating expenses at the time the trust commits itself to the retirement, regardless of the method of payment.

[*Local Government Superannuation Scheme*

Some employees are members of the Local Government Superannuation Scheme which is a defined benefit pension scheme. The scheme assets and liabilities attributable to these employees can be identified and are recognised in the trust’s accounts. The assets are measured at fair value, and the liabilities at the present value of future obligations.

The increase in the liability arising from pensionable service earned during the year is recognised within operating expenses. ~~The expected gain during the year from scheme assets is recognised within finance income.~~ The ***net*** interest cost during the year arising from the unwinding of the discount on the ***net*** scheme liabilities is recognised within finance costs. ***Remeasurements of the defined benefit plan***~~Actuarial gains and losses during the year~~ are recognised in the income and expenditure reserve and reported in the Statement of Comprehensive Income as an item of ‘other comprehensive income’.]

## 4 Expenditure on other goods and services

Expenditure on goods and services is recognised when, and to the extent that they have been received, and is measured at the fair value of those goods and services. Expenditure is recognised in operating expenses except where it results in the creation of a non-current asset such as property, plant and equipment.

## 5 Property, plant and equipment

### *Recognition*

Property, plant and equipment is capitalised where:

- it is held for use in delivering services or for administrative purposes;
- it is probable that future economic benefits will flow to, or service potential be provided to, the trust;
- it is expected to be used for more than one financial year; and

- the cost of the item can be measured reliably.

[Add additional local features e.g. capitalisation threshold, grouping of assets].

Where a large asset, for example a building, includes a number of components with significantly different asset lives e.g. plant and equipment, then these components are treated as separate assets and depreciated over their own useful economic lives.

***Measurement***

*Valuation*

All property, plant and equipment assets are measured initially at cost, representing the costs directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management.

All assets are measured subsequently at fair value. [Details are needed of the bases of determining the fair value for different asset types and the methods the FT uses to ensure that the carrying values reflect Fair Value.]

*Subsequent expenditure*

Subsequent expenditure relating to an item of property, plant and equipment is recognised as an increase in the carrying amount of the asset when it is probable that additional future economic benefits or service potential deriving from the cost incurred to replace a component of such item will flow to the enterprise and the cost of the item can be determined reliably. Where a component of an asset is replaced, the cost of the replacement is capitalised if it meets the criteria for recognition above. The carrying amount of the part replaced is de-recognised. Other expenditure that does not generate additional future economic benefits or service potential, such as repairs and maintenance, is charged to the Statement of Comprehensive Income in the period in which it is incurred.

*Depreciation*

Items of property, plant and equipment are depreciated over their remaining useful economic lives in a manner consistent with the consumption of economic or service delivery benefits. Freehold land is considered to have an infinite life and is not depreciated.

Property, plant and equipment which has been reclassified as ‘Held for Sale’ ceases to be depreciated upon the reclassification. Assets in the course of construction and residual interests in off-Statement of Financial Position PFI contract assets are not depreciated until the asset is brought into use or reverts to the trust, respectively.

*Revaluation gains and losses*

Revaluation gains are recognised in the revaluation reserve, except where, and to the extent that, they reverse a revaluation decrease that has previously been recognised in operating expenses, in which case they are recognised in operating income.

Revaluation losses are charged to the revaluation reserve to the extent that there is an available balance for the asset concerned, and thereafter are charged to operating expenses.

Gains and losses recognised in the revaluation reserve are reported in the Statement of Comprehensive Income as an item of ‘other comprehensive income’.

*Impairments*

In accordance with the FT ARM, impairments that are due to a loss of economic benefits or service potential in the asset are charged to operating expenses. A compensating transfer is made from the revaluation reserve to the income and expenditure reserve of an amount equal to the lower of (i) the impairment charged to operating expenses; and (ii) the balance in the revaluation reserve attributable to that asset before the impairment.

An impairment arising from a loss of economic benefit or service potential is reversed when, and to the extent that, the circumstances that gave rise to the loss is reversed. Reversals are recognised in operating income to the extent that the asset is restored to the carrying amount it would have had if the impairment had never been recognised. Any remaining reversal is recognised in the revaluation reserve. Where, at the time of the original impairment, a transfer was made from the revaluation reserve to the income and expenditure reserve, an amount is transferred back to the revaluation reserve when the impairment reversal is recognised.

Other impairments are treated as revaluation losses. Reversals of 'other impairments' are treated as revaluation gains.

*De-recognition*

Assets intended for disposal are reclassified as 'Held for Sale' once all of the following criteria are met:

- the asset is available for immediate sale in its present condition subject only to terms which are usual and customary for such sales;
- the sale must be highly probable i.e.:
    - management are committed to a plan to sell the asset;
    - an active programme has begun to find a buyer and complete the sale;
    - the asset is being actively marketed at a reasonable price;
    - the sale is expected to be completed within 12 months of the date of classification as 'Held for Sale'; and
    - the actions needed to complete the plan indicate it is unlikely that the plan will be dropped or significant changes made to it.

Following reclassification, the assets are measured at the lower of their existing carrying amount and their 'fair value less costs to sell'. Depreciation ceases to be charged. Assets are de-recognised when all material sale contract conditions have been met.

Property, plant and equipment which is to be scrapped or demolished does not qualify for recognition as 'Held for Sale' and instead is retained as an operational asset and the asset's economic life is adjusted. The asset is de-recognised when scrapping or demolition occurs.

***Donated, government grant and other grant funded assets***

Donated and grant funded property, plant and equipment assets are capitalised at their ***fair value*** on receipt. The donation/grant is credited to income at the same time, unless the donor has imposes a condition that the future economic benefits embodied in the grant are to be consumed in a manner specified by the donor, in which case, the donation/grant is deferred within liabilities and is carried forward to future financial years to the extent that the condition has not yet been met.

The donated and grant funded assets are subsequently accounted for in the same manner as other items of property, plant and equipment.

**Private Finance Initiative (PFI) transactions**

PFI transactions which meet the IFRIC 12 definition of a service concession, as interpreted in

HM Treasury's *FReM*, are accounted for as 'on-Statement of Financial Position' by the Trust. ***In accordance with IAS 17,*** ~~T~~*t*he underlying assets are recognised as property, plant and equipment at their fair value***, together with*** ~~. A~~an equivalent ~~financial~~ ***finance lease*** liability ~~is recognised in accordance with IAS 17~~. ***Subsequently, the assets are accounted for as property, plant and equipment and/or intangible assets as appropriate.***

The annual contract payments are apportioned between the repayment of the liability, a finance cost and the charges for services.

The service charge is recognised in operating expenses and the finance cost is charged to Finance Costs in the Statement of Comprehensive Income.

[Additional policies may be needed e.g. lifecycle replacement is capitalised; for schemes where all or the majority of the operator's income derives from charges to users rather than from payments by the Trust]

## 6 Intangible assets

*Recognition*

Intangible assets are non-monetary assets without physical substance which are capable of being sold separately from the rest of the trust's business or which arise from contractual or other legal rights. They are recognised only where it is probable that future economic benefits will flow to, or service potential be provided to, the trust and where the cost of the asset can be measured reliably.

*Internally generated intangible assets*

Internally generated goodwill, brands, mastheads, publishing titles, customer lists and similar items are not capitalised as intangible assets.

Expenditure on research is not capitalised.

Expenditure on development is capitalised only where all of the following can be demonstrated:

- the project is technically feasible to the point of completion and will result in an intangible asset for sale or use;
- the trust intends to complete the asset and sell or use it;
- the trust has the ability to sell or use the asset;
- how the intangible asset will generate probable future economic or service delivery benefits e.g. the presence of a market for it or its output, or where it is to be used for internal use, the usefulness of the asset;
- adequate financial, technical and other resources are available to the trust to complete the development and sell or use the asset; and
- the trust can measure reliably the expenses attributable to the asset during development.

*Software*

Software which is integral to the operation of hardware e.g. an operating system, is capitalised as part of the relevant item of property, plant and equipment. Software which is not integral to the operation of hardware e.g. application software, is capitalised as an intangible asset.

*Measurement*

Intangible assets are recognised initially at cost, comprising all directly attributable costs needed to create, produce and prepare the asset to the point that it is capable of operating in the manner intended by management.

Subsequently intangible assets are measured at fair value. Revaluations gains and losses and impairments are treated in the same manner as for Property, Plant and Equipment.

Intangible assets held for sale are measured at the lower of their carrying amount or 'fair value less costs to sell'.

*Amortisation*

Intangible assets are amortised over their expected useful economic lives in a manner consistent with the consumption of economic or service delivery benefits.

### 7 *Revenue government and other grants*

Government grants are grants from Government bodies other than income from primary care trusts or NHS trusts for the provision of services. . Where a grant is used to fund revenue expenditure it is taken to the Statement of Comprehensive Income to match that expenditure.

### 8 Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of inventories is measured using [delete as applicable:] the First In, First Out (FIFO) method [or] the weighted average cost method.

### 9 Financial instruments and financial liabilities

***Recognition***

Financial assets and financial liabilities which arise from contracts for the purchase or sale of non-financial items (such as goods or services), which are entered into in accordance with the Trust's normal purchase, sale or usage requirements, are recognised when, and to the extent which, performance occurs i.e. when receipt or delivery of the goods or services is made.

[Financial assets or financial liabilities in respect of assets acquired or disposed of through finance leases are recognised and measured in accordance with the accounting policy for leases described above/below.]

[Regular way purchases or sales are recognised and de-recognised, as applicable, using the Trade/Settlement - *delete as appropriate* - date].

[All other financial assets and financial liabilities are recognised when the Trust becomes a party to the contractual provisions of the instrument.]

***De-recognition***

All financial assets are de-recognised when the rights to receive cash flows from the assets have expired or the Trust has transferred substantially all of the risks and rewards of ownership.

Financial liabilities are de-recognised when the obligation is discharged, cancelled or expires.

***Classification and measurement***

Financial assets are categorised as ['fair value through income and expenditure',] loans and receivables [or 'available-for-sale financial assets'].

[Financial liabilities are classified as 'fair value through income and expenditure' or as 'other financial liabilities'.]

### *Financial assets and financial liabilities at 'fair value through income and expenditure'*

Financial assets and financial liabilities at 'fair value through income and expenditure' are financial assets or financial liabilities held for trading. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. [Derivatives which are embedded in other contracts but which are not 'closely-related' to those contracts are separated-out from those contracts and measured in this category. Assets and liabilities in this category are classified as current assets and current liabilities.

These financial assets and financial liabilities are recognised initially at fair value, with transaction costs expensed in the income and expenditure account. Subsequent movements in the fair value are recognised as gains or losses in the Statement of Comprehensive Income.]

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments with are not quoted in an active market. They are included in current assets.

The trust's loans and receivables comprise: [current investments, cash and cash equivalents, NHS debtors, accrued income and 'other debtors'].

Loans and receivables are recognised initially at fair value, net of transactions costs, and are measured subsequently at amortised cost, using the effective interest method. The effective interest rate is the rate that discounts exactly estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

Interest on loans and receivables is calculated using the effective interest method and credited to the Statement of Comprehensive Income.

### *[Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets which are either designated in this category or not classified in any of the other categories. They are included in long-term assets unless the trust intends to dispose of them within 12 months of the Statement of Financial Position date.

Available-for-sale financial assets are recognised initially at fair value, including transaction costs, and measured subsequently at fair value, with gains or losses recognised in reserves and reported in the Statement of Comprehensive Income as an item of 'other comprehensive income'. When items classified as 'available-for-sale' are sold or impaired, the accumulated fair value adjustments recognised are transferred from reserves and recognised in 'Finance Costs' in the Statement of Comprehensive Income.]

### *[Other] financial liabilities*

All [other] financial liabilities are recognised initially at fair value, net of transaction costs incurred, and measured subsequently at amortised cost using the effective interest method. The effective interest rate is the rate that discounts exactly estimated future cash payments through the expected life of the financial liability or, when appropriate, a shorter period, to the net carrying amount of the financial liability.

They are included in current liabilities except for amounts payable more than 12 months after the Statement of Financial Position date, which are classified as long-term liabilities.

Interest on financial liabilities carried at amortised cost is calculated using the effective interest method and charged to Finance Costs. Interest on financial liabilities taken out to finance property, plant and equipment or intangible assets is not capitalised as part of the cost of those assets.

### *[Determination of fair value*

For financial assets and financial liabilities carried at fair value, the carrying amounts are determined from [quoted market prices/independent appraisals/discounted cash flow analysis/other (describe)].]

### Impairment of financial assets

At the Statement of Financial Position date, the trust assesses whether any financial assets, other than those held at 'fair value through income and expenditure' are impaired. Financial assets are impaired and impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cash flows of the asset.

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. The loss is recognised in the Statement of Comprehensive Income and the carrying amount of the asset is reduced - *delete as appropriate:* [directly] [or] [through the use of an allowance account/bad debt provision]

[Where an allowance account/bad debt provision is used, the accounting policies should include the criteria for determining when an asset's carrying value is written down directly and when the allowance account is used, and the criteria for writing off amounts charged to the allowance account against the carrying amount of the financial asset].

## 10 Leases

### *Finance leases*

Where substantially all risks and rewards of ownership of a leased asset are borne by the NHS foundation trust, the asset is recorded as property, plant and equipment and a corresponding liability is recorded. The value at which both are recognised is the lower of the fair value of the asset or the present value of the minimum lease payments, discounted using the interest rate implicit in the lease.

The asset and liability are recognised at the commencement of the lease. Thereafter the asset is accounted for an item of property plant and equipment.

The annual rental is split between the repayment of the liability and a finance cost so as to achieve a constant rate of finance over the life of the lease. The annual finance cost is charged to Finance Costs in the Statement of Comprehensive Income. The lease liability, is de-recognised when the liability is discharged, cancelled or expires.

### *Operating leases*

Other leases are regarded as operating leases and the rentals are charged to operating expenses on a straight-line basis over the term of the lease. Operating lease incentives received are added to the lease rentals and charged to operating expenses over the life of the lease.

### *Leases of land and buildings*

Where a lease is for land and buildings, the land component is separated from the building component and the classification for each is assessed separately.

## 11 Provisions

The NHS foundation trust recognises a provision where it has a present legal or constructive obligation of uncertain timing or amount; for which it is probable that there will be a future outflow of cash or other resources; and a reliable estimate can be made of the amount. The amount recognised in the Statement of Financial Position is the best estimate of the resources required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the discount rates published and mandated by HM Treasury. .

### *Clinical negligence costs*

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the NHS foundation trust pays an annual contribution to the NHSLA, which, in return, settles all clinical negligence claims. Although the NHSLA is administratively responsible for all clinical negligence cases, the legal liability remains with the NHS foundation trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the NHS foundation trust is disclosed at note *XX* but is not recognised in the NHS foundation trust's accounts.

### *Non-clinical risk pooling*

The NHS foundation trust participates in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. Both are risk pooling schemes under which the trust pays an annual contribution to the NHS Litigation Authority and in return receives assistance with the costs of claims arising. The annual membership contributions, and any 'excesses' payable in respect of particular claims are charged to operating expenses when the liability arises.

## 12 Contingencies

Contingent assets (that is, assets arising from past events whose existence will only be confirmed by one or more future events not wholly within the entity's control) are not recognised as assets, but are disclosed in note *XX* where an inflow of economic benefits is probable.

Contingent liabilities are not recognised, but are disclosed in note *XX*, unless the probability of a transfer of economic benefits is remote. Contingent liabilities are defined as:

- possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or

- present obligations arising from past events but for which it is not probable that a transfer of economic benefits will arise or for which the amount of the obligation cannot be measured with sufficient reliability.

## 13 Public dividend capital

Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities at the time of establishment of the predecessor NHS trust. HM Treasury has determined that PDC is not a financial instrument within the meaning of IAS 32.

A charge, reflecting the cost of capital utilised by the NHS foundation trust, is payable as public dividend capital dividend. The charge is calculated at the rate set by HM Treasury (currently 3.5%) on the average relevant net assets of the NHS foundation trust during the financial year. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for (i) donated assets (including lottery funded assets), (ii) net cash balances held with the Government Banking Services (GBS), excluding cash balances held in GBS accounts that relate to a short-term working capital facility, and (iii) any PDC dividend balance receivable or payable. In accordance with the requirements laid down by the Department of Health (as the issuer of PDC), the dividend for the year is calculated on the actual average relevant net assets as set out in the 'pre-audit' version of the annual accounts. The dividend thus calculated is not revised should any adjustment to net assets occur as a result the audit of the annual accounts.

## 14 Value Added Tax

Most of the activities of the NHS foundation trust are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

### 15 Corporation Tax

[This note should disclose:
- the basis of the charge for taxation;
- the policy adopted for providing for deferred taxation; and
- the policy adopted regarding discounting.

If the NHS foundation trust has determined that it is has no corporation tax liability then the basis for that decision should be disclosed.]

### 16 Foreign exchange

The functional and presentational currencies of the trust are sterling.

A transaction which is denominated in a foreign currency is translated into the functional currency at the spot exchange rate on the date of the transaction.

Where the trust has assets or liabilities denominated in a foreign currency at the Statement of Financial Position date:

- monetary items (other than financial instruments measured at 'fair value through income and expenditure') are translated at the spot exchange rate on 31 March;
- non-monetary assets and liabilities measured at historical cost are translated using the spot exchange rate at the date of the transaction; and
- non-monetary assets and liabilities measured at fair value are translated using the spot exchange rate at the date the fair value was determined.

Exchange gains or losses on monetary items (arising on settlement of the transaction or on re-translation at the Statement of Financial Position date) are recognised in income or expense in the period in which they arise.

Exchange gains or losses on non-monetary assets and liabilities are recognised in the same manner as other gains and losses on these items.

### 17 Third party assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the NHS foundation trust has no beneficial interest in them. However, they are disclosed in a separate note to the accounts in accordance with the requirements of HM Treasury's *FReM*.

### 18 Losses and special payments

Losses and special payments are items that Parliament would not have contemplated when it agreed funds for the health service or passed legislation. By their nature they are items that ideally should not arise. They are therefore subject to special control procedures compared with the generality of payments. They are divided into different categories, which govern the way that individual cases are handled. Losses and special payments are charged to the relevant functional headings in expenditure on an accruals basis, including losses which would have been made good through insurance cover had NHS trusts not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure).

However the losses and special payments note is compiled directly from the losses and compensations register which reports on an accrual basis with the exception of provisions for future losses.

## 19 Transfers of functions [to / from] [other NHS bodies / local government bodies]

For functions that have been transferred to the trust from another [NHS / local government] body, the assets and liabilities transferred are recognised in the accounts as at the date of transfer. The assets and liabilities are not adjusted to fair value prior to recognition. The net [gain / loss] corresponding to the net [assets/ liabilities] transferred is recognised within [income / expenses], but not within operating activities.

For property plant and equipment assets and intangible assets, the Cost and Accumulated Depreciation / Amortisation balances from the transferring entity's accounts are preserved on recognition in the trust's accounts. Where the transferring body recognised revaluation reserve balances attributable to the assets, the trust makes a transfer from its income and expenditure reserve to its revaluation reserve to maintain transparency within public sector accounts.

For functions that the trust has transferred to another [NHS / local government] body, the assets and liabilities transferred are de-recognised from the accounts as at the date of transfer. The net [loss / gain] corresponding to the net [assets/ liabilities] transferred is recognised within [expenses / income], but not within operating activities. Any revaluation reserve balances attributable to assets de-recognised are transferred to the income and expenditure reserve. [Adjustments to align the acquired function to the foundation trust's accounting policies are applied after initial recognition and are adjusted directly in taxpayers' equity].

# 4. Statement of Comprehensive Income and notes

4.1. IAS 1 ‘Presentation of Financial Statements’ requires the preparation of a Statement of Comprehensive Income. In the interest of consistency across the NHS foundation trust sector, Monitor has withdrawn an option in IAS 1 to present this information as two separate statements.

*4.2.* The standard does not prescribe the structure of the statement, but simply sets out the items which must be disclosed on the face of the statement. ***In accordance with the revision to IAS 1, other comprehensive income should be analysed between (a) amounts that will not be reclassified subsequently to income and expenditure (e.g. revaluations of property, plant and equipment); and (b) amounts that will subsequently be reclassified to income and expenditure (e.g. movements in the fair value of available-for-sale financial assets).***

~~4.2.~~4.3. Generally, income and expenditure should be recorded gross and not netted off. The exception to this is where a member of staff is employed jointly by the NHS foundation trust and another NHS body then only the element of the salary relating to the NHS foundation trust should be recorded as expenditure**.** Where net accounting for recharges is applied, it must reflect the principles of IAS 18. Each circumstance will need to be assessed individually against the relevant accounting standards and the treatment must be agreed with the counterparty to the transaction.

~~4.3.~~4.4. Where an NHS foundati*o*n trust works with another NHS body on an agency basis, for example, processing invoices or managing a lease car scheme, then the transactions it processes on behalf of the other body do not need to be reflected in the NHS foundation trust accounts. Where the NH*S* foundation trust is paid for providing the service then that payment should be reflected in its accounts.

## Income

~~4.4.~~4.5. NHS foundation trusts are required to follow IAS 18 in relation to revenue recognition.

### Income from activities

~~4.5.~~4.6. Income should be classified as income from activities when it is earned under contracts with NHS bodies and others for the provision of patient-related healthcare services. Income from non-patient-care services should be classified as “other operating income”. Income arising from the activities of subsidiaries consolidated into the accounts of the NHS foundation trust should be classified on the same basis, regardless of how is it classified in the accounts of the subsidiary.

~~4.6.~~4.7. Where “other income” is material, additional disclosure should be made in the accounts as to its source. Even where “other income” is not material for the foundation trust, the FTC may require additional analysis, as it may include items that are material for the sector as a whole.

*Partially completed spells*

~~4.7.~~4.8. NHS foundation trusts enter into contracts for services based on a model contract. The suggested contract is three years in length but actual contracts could be longer or shorter. The key elements of the model contract are that:

- the NHS foundation trust has to provide the service or services needed by each patient who is referred, or presents, to the provider for healthcare or treatment in accordance with the contract;

- the NHS foundation trust can only refuse to treat patients in limited circumstances based on clinical needs or patient behaviour;

- even when treatment is refused the NHS foundation trust will be paid for activity undertaken up to the point that the treatment is refused and the patient discharged unless and to the extent that such an activity requires rectification by another provider; and

- the commissioner will pay the NHS foundation trust for activity delivered based on prices set out in the contract.

~~4.8.~~4.9. Therefore, if the NHS foundation trust can demonstrate that it is certain to receive the income for a treatment or spell once the patient is admitted and treatment begins then the income for that treatment or spell can start to be recognised at the time of admission and treatment starting. Costs of treatment are then expensed as incurred. Income relating to those spells which are partially completed at the financial year end should be apportioned across the financial years on a pro rata basis. This basis may be the expected or actual length of stay or may be based on the costs incurred over the length of the treatment. It is for the NHS foundation trust to establish a suitable pro rata basis, and where material, disclose this in the accounting policy note.

~~4.9.~~4.10. NHS foundation trusts should examine the terms of the contracts that they have entered into to determine exactly how revenue should be recognised in accordance with IAS 18.

**Intra-NHS agreement of balances**

~~4.10.~~4.11. NHS foundation trusts are required to participate in the NHS-wide agreement of balances exercise.

~~4.11.~~4.12. NHS foundation trusts should note the following:

- invoices should not be settled between NHS organisations during the last 5 working days of the financial year without the prior agreement of the receiving body. This is not intended to prohibit proper payments between NHS organisations but to avoid timing differences;

- the de-minimus levels for receivables/payables agreements with other NHS bodies is £50,000 (net of credit notes). Balances below these figures must still recorded on the forms submitted but do not need to be agreed;

- the de-minimus levels for income/expenditure agreements with other NHS bodies is £100,000 (net of credit notes). Balances below these figures must still recorded on the forms submitted but do not need to be agreed. There is no requirement to formally agree income and expenditure between NHS bodies at the year-end, but there is a requirement to agree balances over £100,000 at month 9;

- the NHS body which is sending the invoice (i.e. the receivable organisation) takes the lead by preparing a statement at the year-end for each receivable organisation which includes outstanding invoices and credit notes issued up to year-end to be sent to each payable organisation;

- all PDC and Loan transactions with the Department of Health are excluded from the Agreement of Balances process because they are funding activities and not trading activities;

- Supplychain (Maidstone) balances should be agreed and recorded against the Department of Health as they are services hosted by the NHS Business Services Authority on the Department's behalf. There is no requirement to agree balances or transactions in relation to NHS SupplyChain (Alfreton);

- hospital prescribing balances and transactions should be treated as "External to Government", as the substance of the transaction is that the Department is acting as a payment agent between the Hospitals and the Pharmacies, which are external to government;

- injury Benefits balances and transactions should be treated as "External to Government", as the substance of the transaction is that the Department is acting as a payment agent between NHS employers (NHS trusts, NHS foundation trusts, PCTs SHAs) and individuals in receipt of injury benefits, who are external to government; and

- the recorded balances on the forms are made up of:

    - notified balance; representing the balance included on the statement issued by the receivables organisation (which also includes the separate accruals statement issued at month 12). This balance should be reflected within the payables organisation "notified" total. This is to show that both parties have the same starting position, and therefore where the overall total does not match between two organisations, this is due to true disagreements on the balance recorded elsewhere;

    - adjusted amounts (+/- ve): representing amounts that are likely to be contested, in particular when insufficient time exists to authorise invoiced amounts or accruals. There should be no entries here in respect of items over three months old; all potential disagreements should be resolved within three months of the invoice date. This will include any negative entries where the organisation is treating an item as capital rather than revenue income/expenditure. Entries must be supported by auditable working papers; and

    - disputed amounts (-ve): representing amounts that are FORMALLY disputed by the payable organisation and have been notified to the counterparty as such. The 'disputed' column must record only the disputed element of a transaction e.g. if schedule for £550k has £5k of disputed items then the full £550k is recorded by both bodies on the in the 'Notified & Accrued' column, and the £5k included in the 'Disputed' column by the body that disputes it. Notification of a disputed item must give a reason why it has been disputed. Disputed items are quite separate to requests to providers to clarify individual invoice details. There should be no entries here in respect of items over three months old; all potential disagreements should be resolved within three months of the invoice date. Entries must be supported by auditable working papers; and

- if a Foundation Trust is established mid-year then only that part of income/expenditure relating to transactions after establishment should be entered against the Foundation Trust on the agreement of balances schedules. Income/expenditure relating to the part-year before the Foundation Trust is established should be recorded under the line for the predecessor NHS Trust.

~~4.12.~~4.13. The overarching principles that organisations must apply are:

- transactions that are of a trading nature are to be shown gross by both parties;
- where an organisation acts solely as an agent as defined by IAS 18 and does not gain any economic benefit from the transaction, it may be appropriate to treat the item as a recharge and net off the income against the expenditure;
- recharges of staff costs should be accounted for in accordance with paragraph 4.2;
- where the amounts involve estimates, both parties should agree an approach to the estimation e.g. partially-completed patient spells; non-contracted activity; contract penalties; and
- each circumstance will need to be assessed individually and treatment must be agreed between parties.

~~4.13.~~4.14. NHS foundation trusts should refer to the Supplementary Guide to Agreement of Balances issued jointly by the Department of Health and Monitor in December 2012 for additional guidance on how this exercise should be conducted.

### Government grants (IAS 20)

*~~4.14.~~4.15.* NHS foundation trusts should apply IAS 20 to the treatment of government and other grants, with the following interpretations.

- The option in IAS 20 to deduct the grant from the carrying value of the asset is not permitted;
- Grant income relating to assets is recognised within income when the foundation trust becomes entitled to it, unless the grantor imposes a condition that the future economic benefits embodied in the grant are to be consumed as specified by the grantor and if it is not, the grant must be returned to the grantor, e.g. a grant that is conditional on the construction of an asset.

  Where such a condition exists, the grant is recognised as deferred within liabilities and carried forward to future financial years to the extent that the condition has not yet been met.

~~4.15.~~4.16. A grant for an asset may be received subject to a condition that it is to be returned to the grantor if a specified future event does or does not occur. For example, a grant may need to be returned if the foundation trust ceases to use the asset purchased with that grant for a purpose specified by the grantor. 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 a condition would not therefore require the grant to be treated as deferred.

~~4.16.~~4.17. Grants and similar types of receipts from any entity within the boundary of Whole of Government Accounts should be accounted for as a Government grant.

~~4.17.~~4.18. Where the NHS foundation trust is a member of the EU Greenhouse Gas Emission Allowance Trading scheme and it has been issued allowances at less than fair value then the difference between the amount paid and the fair value represents a government grant that is subject to a condition, as per the interpretation of IAS 20. The income element should be deferred and released to income as the liability to emit greenhouse gases is recognised in expenses.

### Donations

~~4.18.~~4.19. NHS foundation trusts should account for donations by applying the same principles as for government grants above. ***Where an NHS foundation trust consolidates NHS charitable funds, donations received from those funds will be eliminated on consolidation in the group accounts.***

### *Profits and losses on disposal of non-current assets*

~~4.19.~~4.20. Where non-current assets are disposed of, but the activities which they supported are continuing, then any profit or loss on disposal should be recognised in operating income or operating expenses as appropriate. Where the asset has been disposed of as part of the disposal or discontinuance of an activity, then any profit or loss on disposal should be shown on the face of the Statement of Comprehensive Income within the amount for 'Surplus/(deficit) of discontinued operations and the gain/(loss) on disposal of discontinued operations'.

## Operating expenses

### Analysis of operating expenses

~~4.20.~~4.21. IAS 1 requires an analysis of operating expenses to be disclosed on either the face of the Statement of Comprehensive Income or in a note to the accounts. This analysis should reflect the nature of the expenditure e.g. employment costs, supplies and services, unless management considers that an analysis by function is more relevant, and in which case an analysis by nature should be disclosed in a note to the accounts.

~~4.21.~~4.22. Consideration should also be given to the analysis required for the FTC. In some cases, it will be necessary to report non-material items in the FTC as they may be material in aggregate for the foundation trust sector. For example, further analysis of 'other operating expenses' will be required.

### Employee benefits expense

~~4.22.~~4.23. IAS 19 sets out the requirements for accounting for short-term employee benefits, post-employment benefits and termination benefits. The 'employee benefits expense' includes all three of these costs.

### Retirement benefits

~~4.23.~~4.24. NHS foundation trusts should account for retirement benefits in accordance with ***IAS 19*** ***(Revised 2011)***. ***Paragraph 12.2.5(a) of the FReM requires foundation trusts to account for*** ~~***T***~~***the*** NHS Pension Scheme ***as a defined contribution scheme***~~meets the definition of a defined benefit plan that shares risks between~~

~~various entities under common control~~. NHS foundation trusts should therefore recognise an expense equal to their employer contribution to the scheme during the year.

~~4.24.~~4.25. Where NHS foundation trusts are members of other defined benefit schemes, they will need to assess whether these schemes should be accounted for as defined benefit schemes or as defined contribution schemes.

4.26. ***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; and***
- ***'Actuarial gains and losses' are renamed 'Remeasurement 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.***

~~4.25.~~4.27. ~~Where schemes are accounted for as defined benefit schemes, NHS foundation trusts should recognise actuarial gains and losses directly in the I&E reserve and report the gain or loss as an item of 'other comprehensive income' in the Statement of Comprehensive Income.~~ Where defined benefit schemes have a minimum funding requirement, this may affect the amount of any net asset which the NHS foundation trust can recognise when the scheme is in surplus. IFRIC 14 provides guidance on any adjustments required to the asset in these circumstances.

## Termination benefits

4.28. Termination benefits include, for example, redundancy costs, termination gratuities and pension enhancements on termination. ~~Such costs fall within the scope of~~ ***IAS 19 (Revised)*** ~~rather than IAS 37~~ ***introduces a revised definition of termination benefits. Termination benefits are only those where the event giving rise to the benefit is the termination of the employment by (a) the employer; or (b)an employee deciding to accept the employer's offer of benefits in exchange for termination. Benefits that are conditional on future service by an employee are not termination benefits.***

4.29. ***Termination benefits are recognised at the earlier of:***

***a) When the trust can no longer withdraw the offer of those benefits; and***

***b) When the trust recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.***

## PDC dividends payable

~~4.26.~~4.30. The disclosure of PDC dividends payable on the face of the Statement of Comprehensive Income is the total of PDC dividends payable by the NHS foundation trust in respect of the financial year.

~~4.27.~~4.31. ***The Secretary of State***~~Legislation~~ requires that NHS foundation trusts pay a PDC dividend ~~on the same basis as NHS trusts.~~ ***based on*** ~~***A***~~***a*** charge of 3.5% ~~is therefore payable based on~~ of actual average relevant net assets during the financial year as determined in the draft/unaudited accounts submitted to Monitor. Any difference between the amount of PDC dividend paid, and payable, for the financial year should be recorded as a receivable or payable in the Statement of Financial Position. Once determined for the draft accounts, the PDC dividend payable is not recalculated to take account of any changes in net assets that may be recognised as a result of the audit of the accounts.

~~4.28.~~4.32. The calculation of relevant net assets is as follows:

| | |
|---|---|
| Total public dividend capital and reserves | X |
| Less: Net book value of donated assets and lottery-funded assets | (X) |
| Plus: The value of any deferred income balance that funds a donated asset or lottery-funded asset* | X |
| Less: Net cash balances in Government Banking Service accounts (excluding cash balances in GBS accounts that relate to a short-term working capital facility) | (X) |
| Less/Add: PDC Dividend receivable/payable | (X) |
| | X |

* This avoids the potential to double-count donated assets or lottery-funded assets as a reduction in relevant net assets where a donated or lottery-funded asset is associated with a deferred income balance.

## Notes to the Statement of Comprehensive Income

### Operating segments (IFRS 8)

~~4.29.~~4.33. IFRS 8 requires disclosures of the results of significant operating segments*.*

~~4.30.~~4.34. The standard uses revenues as the principal measure of the relative size of individual activities. However, NHS foundation trusts may not allocate income to individual activities for the purposes of internal performance reporting, choosing instead to report expenditure by activity and reporting income only for the entity as a whole.

~~4.31.~~4.35. Where income is not allocated consistently to individual activities for internal reporting to the CODM, NHS foundation trusts should determine which operating segments are reportable by reference to the operating expenses of the segment and the total operating expenses of the trust.

#### *Disclosures*

~~4.32.~~4.36. The standard provides for the information on income, expenses, surplus/deficit, assets and liabilities to be disclosed on the same basis as that used for internal reporting to the CODM. This means that if they are not recognised and measured on an IFRS basis for internal reporting, then they do not need to be restated to IFRS prior to disclosure. However, reconciliations must be provided between the aggregate amounts disclosed for reportable segments and the totals included in the financial statements. In practice, the key adjustments are likely to be the removal of internal income and expenses, any necessary restatement to an IFRS basis and the inclusion of amounts in respect of the activities of operating segments which did not meet the criteria for a reportable segment.

### Discontinued operations

~~4.33.~~4.37. NHS foundation trusts should review their activities against IFRS 5 to determine whether any activities meet the definition of a discontinued operation, and if so, to reclassify it as such and measure and disclose it accordance with that standard.

~~4.34.~~4.38. Following the requirements of the *FReM*, activities that are transferred to other bodies within the boundary of Whole of Government Accounts are ‘machinery of government changes’. They should therefore be treated as continuing operations, and in the financial year of disposal should be removed from the accounts in accordance with paragraph 3.44~~3.483.47~~ of this Manual.

~~4.35.~~4.39. Discontinued operations can only occur therefore, in respect of activities that genuinely cease without transferring to another entity, or which transfer to an entity outside the boundary of Whole of Government Accounts, such as the private or voluntary sectors.

### Analysis of income

~~4.36.~~4.40. In accordance with the requirements of paragraph 5.4.39 of the *FReM*, NHS foundation trusts should provide in a note to the accounts an analysis of income, together with commentary where appropriate, that enables users of the accounts to understand the nature of the NHS foundation trust’s income.

#### *Income from activities arising from mandatory and non-mandatory services*

~~4.37.~~4.41. Within this analysis of income, NHS foundation trusts should also disclose the level of income from activities that has arisen from mandatory and non-mandatory services (as set out in the NHS foundation trust’s Terms of Authorisation). This analysis should sum to the total income from activities set out on the face of the

Statement of Comprehensive Income.

### ~~Private patient income~~

~~4.38. The statutory limitation on private patient income in section 44 of the 2006 Act was repealed with effect from 1 October 2012 by the Health and Social Care Act 2012. The financial statements disclosures that were provided previously are no longer required.~~

### Directors' remuneration and other benefits

~~4.39.~~4.42. In addition to the Remuneration Report, the Companies Act 2006 requires disclosure, in a note to the accounts, of the aggregate of remuneration and other benefits receivable by directors during the financial year. This information is required even where entities prepare a Remuneration Report, although in such cases the disclosure requirements in the accounts are correspondingly fewer.

~~4.40.~~4.43. The requirements for disclosing directors' remuneration are set out in section 412 of the Act and in Regulation 8 and Schedule 5 to the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). In summary, the disclosures comprise the aggregate amounts of each of the following:

- Directors' remuneration;
- Gains made by directors on the exercise of share options (not likely to apply but could theoretically apply in respect of any subsidiary companies of an NHS foundation trust);
- Money paid and the net value of assets (other than money and share options) receivable by directors, under long term incentive schemes (again not likely to be relevant to an NHS foundation trust);
- Employer contributions to a pension scheme in respect of directors; and
- The total number of directors to whom benefits are accruing under:
  - Money purchase schemes
  - Defined benefit schemes

~~4.41.~~4.44. The requirements for disclosing directors' other benefits are set out in section 413 of the Act, and comprise:

- Advances and credits granted by the NHS foundation trust (or any subsidiary undertaking) to any of directors of the trust:
  - the amount of the advance;
  - an indication of the interest rate;
  - the main conditions; and
  - any amounts repaid.

and

- Guarantees of any kind entered into on behalf of the directors of the NHS foundation trust by the trust (or any subsidiary undertaking):

- the main terms of the guarantee;
- the amount of the maximum liability that maybe incurred by guarantor entity; and
- any amount paid and any liability incurred by the guarantor for the purpose of fulfilling the guarantee.

- The aggregate of:
  - all advances
  - all repayments of advances;
  - the maximum liabilities under guarantees; and
  - amounts paid under such guarantees.

~~4.42.~~4.45. These disclosures apply to any advance or guarantee existing at any time during the financial year, regardless of when it was entered into, whether the individual concerned was a director at the time it was entered into and, if by a subsidiary, regardless of whether the entity was a subsidiary at the time it was entered into.

**Staff costs**

~~4.43.~~4.46. This disclosure is required by section 411 of the Companies Act 2006. Staff costs are interpreted by the ARM to include:

- all persons with a permanent (UK) contract of employment with the NHS foundation trust (this will include executive directors but exclude non-executive directors); and
- other staff engaged on the objectives of the NHS foundation trust (for example, short-term contract staff, agency/temporary staff and inward secondments where the NHS foundation trust is paying the whole or majority of their costs). In practice, this includes:
  - the costs of staff recharged by another organisation where no element of overhead is included i.e. where the staff costs are shared between the NHS foundation trust and other bodies;
  - staff agency payments i.e. payments to an agency for the employment of staff where the staff remain employees of the agency;
  - contract staff i.e. where the NHS foundation trust has control over numbers and qualifications of staff (in contrast to a service obtained under contract); and
  - staff on secondment or on loan from other organisations.

~~4.44.~~4.47. This note should make the following disclosures in relation to staff costs:

- salaries and wages;
- social security costs;

- employer contribution to NHS Pensions; and

- other pension costs.

~~4.45.~~4.48. The note should also include an analysis of average staff numbers. These should be disclosed in the categories defined in DSCN 18/2001 (which can be found on the Department of Health's website http://www.isb.nhs.uk/documents/dscn/dscn2001/ ).

~~4.46.~~4.49. The staff costs note should be capable of being reconciled to the total of employee benefit expenses within operating expenses.

***Staff exit packages***

~~4.47.~~4.50. Foundation trusts are required to disclose summary information of their use of exit packages agreed in the year, as required by the FReM.

~~4.48.~~4.51. A narrative description should be provided, together with summary information in accordance with the table on the following page (comparative information should be included in brackets).

| Exit package cost band | Number of compulsory redundancies | Number of other departures agreed | Total number of exit packages by cost band |
|---|---|---|---|
| <£10,000 | | | |
| £10,00 - £25,000 | | | |
| £25001 - £50,000 | | | |
| £50,001 – £100,000 | | | |
| £100,000 - £150,000 | | | |
| £150,001 - £200,000 | | | |
| etc........ | | | |
| Total number of exit packages by type | | | |
| Total resource cost | | | |

~~4.49.~~4.52. The exit packages within the scope of this disclosure include, but are not limited to, those made under nationally-agreed arrangements or local arrangements for which Treasury approval was required.

~~4.50.~~4.53. Exit packages in respect of senior managers that have been disclosed in the Directors' Remuneration Report need not be included here. Instead, this note should explain that those details can be found in the Directors' Remuneration Report.

~~4.51.~~4.54. The cost of ill-health retirements falls on the relevant pension scheme, not the foundation trust, and should not be included in this disclosure.

### Ill-health retirements

~~4.52.~~4.55. Foundation trusts are required to disclose the number of early retirements agreed on the grounds of ill-health during the year, together with the estimated resulting additional pension liabilities borne by the relevant pension scheme.

### Retirement benefits (*IAS 19* *Revised*)

~~4.53.~~4.56. ***Foundation trusts should provide the following*** ***IAS 19*** ***(Revised)*** ~~requires the following~~ disclosures in relation to multi-employer defined benefit schemes which are accounted for as a defined contribution scheme, ~~such as~~ in respect of the NHS pension scheme:

- the fact that the scheme is a defined benefit scheme;
- the reason why sufficient information is not available to enable the employer to account for the scheme as a defined benefit scheme;
- any available information about the existence of the surplus or deficit in the scheme;
- the basis used to determine that surplus or deficit; and
- the implications of that surplus or deficit for the employer.

~~4.54.~~4.57. NHS foundation trusts should be aware of the following information in relation to the NHS pension scheme when they are drafting the above disclosures :

- the NHS Pension Scheme is subject to a full valuation every four years by the Government Actuary. The latest published valuation relates to the period 1 April 1999 to 31 March 2004 which was published in December 2007 and is available on the NHS Pensions Agency website here.
- the national deficit of the scheme was £3.3 billion as per the last scheme valuation by the Government Actuary for the period 1 April 1999 to 31 March 2004. The conclusion of the valuation was that the scheme continues to operate on a sound financial basis.
- employer contribution rates are reviewed every four years following the scheme valuation, on advice from the actuary. At the last valuation it was recommended that employer contribution rates should continue at 14% of pensionable pay. From 1 April 2008, employees' pay contributions ~~will be~~ are on a tiered scale from 5% to 8.5% of their pensionable pay.

### Profits and losses on disposal of property, plant and equipment

~~4.55.~~4.58. Where protected assets (including formerly protected assets) have been disposed of during the year, a narrative disclosure is required. This could include, for example, the fair value of the asset; the amount of any sale proceeds or other consideration receivable; and, where relevant, a brief description of the assets that the foundation trust is using in place of the assets disposed of.

**Comment [WU3]:** Need to confirm with HM Treasury their justification for defined contribution treatment (i.e. multi-employer scheme; or scheme where risks are shared; or state scheme)

This is because the justification used affects whether para 148 or 149 disclosures apply.

# 5. Statement of Financial Position and notes

## Format of the Statement of Financial Position

5.1. IAS 1 requires that the Statement of Financial Position is presented so as to present separately non-current assets, current assets, current liabilities and non-current liabilities. The standard permits the use of a liquidity presentation where this is more appropriate, but this option is withdrawn for NHS foundation trusts. NHS foundation trusts should ensure that they correctly classify assets and liabilities between current and non-current, in accordance with paragraphs 57 to 67 of IAS 1.

## Property, plant and equipment (IAS 16)

### *Property assets*

5.2. Following recognition, for subsequent measurement of property assets, NHS foundation trusts must follow the Revaluation Model in IAS 16. The Cost Approach for subsequent measurement in the standard is not permitted. For an asset that is newly-acquired or constructed, a formal revaluation should only be necessary if there is an indication that the initial cost is significantly different to its fair value. Otherwise, the asset should only be re-valued on the next occasion when all assets of that class are re-valued.

5.3. Where, due to the specialised nature of an asset, the fair value is to be determined using a Depreciated Replacement Cost, NHS foundation trusts should have regard to the interpretations in paragraph 6.2.7 of the *FReM* including the Guidance on Asset Valuation referred to therein and available on the *FReM*'s dedicated website. In accordance with the adaptation of IAS 16 in paragraph 6.2.5 of the *FReM*, for non-specialised property assets in operational use, 'fair value' should be interpreted as market value for existing use.

### *Non-property assets*

5.4. In accordance with paragraph 6.2.7 (i) of the *FReM*, NHS foundation trusts may adopt a depreciated historical cost basis as a proxy for fair value in respect of assets which have short useful lives or low values (or both). For depreciated historical cost to be considered as a proxy for fair value, the useful life must be a realistic reflection of the life of the asset and the depreciation method used must provide a realistic reflection of the consumption of that asset. Where such a basis is not used, assets should be carried at fair value and NHS foundation trusts should value them using the most appropriate valuation methodology available.

### *Revaluations*

5.5. There is no pre-determined frequency with which assets must be re-valued. Instead, the standard requires that asset values should be kept up to date and that the frequency of revaluation will need to reflect the volatility of asset values. Where assets are subject to significant volatility, then annual revaluations may be required. Conversely, where changes in asset values are insignificant then a revaluation may be necessary only every 3 or 5 years. In Monitor's view, property assets are likely to require revaluation at least every 5 years.

5.6. Where an individual asset is re-valued then all of the assets in that class must be re-valued at the same time. As a minimum, NHS foundation trusts should establish, and report on, the following classes of PP&E, as required by the *FReM*:

- land and buildings (excluding dwellings);
- dwellings;
- transport equipment;
- plant and machinery;
- information technology;
- furniture and fittings;
- antiques and works of art; and
- payments on account and assets under construction.

5.7. Where a revaluation results in an increase in an asset's value, this increase should be credited to the revaluation reserve unless it reverses a revaluation loss previously recognised in operating expenses, in which case it should be credited initially to operating income and thereafter to the revaluation reserve.

5.8. Where a revaluation results in a reduction in an asset's value, this reduction should be charged initially to the revaluation reserve to the extent that there is an available balance in respect of the asset, and thereafter it should be charged to operating expenses. Negative revaluation reserve balances for individual assets are not permitted.

5.9. When assets are re-valued, the carrying amount of the asset should be re-stated at its re-valued amount. NHS foundation trusts should follow the approach set out in paragraph 35(b) of IAS 16 and eliminate any accumulated depreciation against the carrying value of the asset. This is illustrated in the table below:

Details of the PP&E asset before revaluation:

| | £ |
|---|---|
| PP&E asset at cost/valuation | 1,000 |
| Accumulated depreciation | (400) |
| Net book amount | 600 |

The asset is re-valued to £1,500

Details of the PP&E asset after revaluation

| | £ |
|---|---|
| PP&E asset at cost/valuation | 1,000 |
| Gain on revaluation | 500 |

| | |
|---|---|
| PP&E asset at re-valued amount | 1,500 |
| Accumulated depreciation | 400 |
| Gain on revaluation | (400) |
| Depreciation after revaluation | Nil |

### Capitalisation threshold of fixed assets - de minimis limits

5.10. The *FReM* leaves discretion for individual Government departments to set their own capitalisation thresholds, having regard to practicality, flexibility, consistency and asset grouping considerations. NHS bodies generally adopt a capitalisation threshold of £5,000 and it is recommended that NHS foundation trusts use this threshold. However, if NHS foundation trusts wish to adopt a lower de minimis threshold then that would be acceptable. Where a change in the de minimis is made then the NHS foundation trust must consider whether a prior period adjustment is required. The £5,000 figure includes VAT where this is not recoverable.

### Grouped assets

5.11. "Grouped assets" are a collection of assets which individually may be valued at less than £5,000 but which together form a single collective asset because the items fulfil all the following criteria:

- the items are functionally interdependent;
- the items are acquired at about the same date and are planned for disposal at about the same date;
- the items are under single managerial control; and
- each individual asset thus grouped has a value of over £250.

5.12. Assets acquired in the course of the initial setting up of a new building or on refurbishment may also be treated as "grouped" for capitalisation purposes.

*IT assets*

5.13. It is expected that IT hardware will be considered interdependent if it is attached to a network, the fact that it may be capable of stand-alone use notwithstanding. The effect of this will be that all IT equipment purchases*,* where the final three criteria listed above apply, will be capitalised.

### Initial equipping and setting-up costs of a new building

5.14. Assets which are capital in nature, but which are individually valued at less than £5,000 but more than £250, may be capitalised (at the NHS foundation trust's discretion) as collective, or “grouped”, assets where they are acquired as part of the setting-up of a new building. The decision on whether or not to capitalise such costs is a choice of accounting policy and consequently the NHS foundation trust should ensure consistency in adhering to this accounting policy if it decides that it is the most appropriate way of valuing its property, plant and equipment. In this context, the enhancement or refurbishment of a ward or unit should be treated in the same way as "new build", provided that the work would be considered as “subsequent expenditure” in IAS 16 terms. It is therefore appropriate to capitalise the purchase of new furniture in a new build or refurbishment exercise, provided that assets thus capitalised can be subsequently identified for audit purposes.

## Heritage assets (FRS 30)

5.15. Heritage assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

- It is not expected that NHS foundation trusts will hold such assets as this definition excludes assets which are held for operational purposes. Where an NHS foundation trust does hold a heritage asset then FRS 30 must be followed with the following ~~one~~ interpretation~~.~~ Paragraph 25 of the standard refers to the receipt of donated heritage assets being reported in income; NHS foundation trusts should, instead, follow the approach to accounting for donations described in chapter 4 of this manual.

## Intangible assets (IAS 38)

5.16. Intangible assets can only be recognised if it is probable that future economic benefits will flow to, or service potential be provided to, the NHS foundation trust and the cost of the asset can be measured reliably.

*5.17.* Intangible assets are initially measured at cost. NHS foundation trusts must measure them subsequently at a valuation – the cost model in IAS 38 is not permitted.

### EU Emission Allowance Trading Scheme

~~5.17.~~5.18. Where NHS foundation trusts are members of the EU Greenhouse Gas Emission Allowance Trading Directive, the scheme gives rise to an asset for allowances held and a liability for the obligation to deliver allowances equal to the emissions that have been made. Allowances, whether allocated by government or purchased should be recognised as assets. Allowances intended to be held for use on a continuing basis should be classified as current or non-current intangible assets.

~~5.18.~~5.19. The allowance held for use should be shown valued at fair value even when it is issued by government for less than fair value. The intangible asset is written down at the year end to the extent that the NHS foundation trust has made emissions and used up its allowances. If allowances are traded then the NHS foundation trust could generate a loss or profit on disposal.

**Comment [WU4]:** The HMT December FRAB paper on the CRC schemes deletes simply the whole FReM text for this old (but as we understand still running) scheme.

~~5.19.~~5.20. See also government grants and provisions for other accounting entries relating to this scheme.

### Carbon Reduction Commitment (CRC) Energy Efficiency Scheme allowances

~~5.20.~~5.21. Background to the CRC scheme and how to account for the obligation arising from energy usage can be found in paragraphs 5.65~~5.695.695.65~~ to 5.67~~5.715.715.67~~.

~~5.21.~~5.22. CRC allowances held for use by the NHS foundation trust are accounted for as intangible assets, and analysed in the Statement of Financial Position between current and non-current assets, as appropriate. If the allowances are held for trading, then they are accounted for as current assets.

~~5.22.~~5.23. Where allowances are acquired for less than their fair value, they should be measured on initial recognition at their fair value, with the excess over the acquisition cost being recognised as income.

~~5.23.~~5.24. Where there is evidence of an active secondary market for CRC allowances, they should be measured subsequently at fair value. If there is no evidence of an active secondary market, then the allowances should be measured at cost, less impairment.

## Impairment of property, plant and equipment, intangible assets and heritage assets (IAS 36)

~~5.24.~~5.25. IAS 36 defines value in use as the present value of the future cash flows from the asset's continued use. However, it adds that, where a non-current asset is not held for the purpose of generating cash flows, an alternative measure of its service potential may be more relevant. HM Treasury have interpreted this for the public sector, stating that, where assets are not held for the purpose of generating cash flows, value in use will be assumed to be at least equal to the cost of replacing the service potential provided by the asset unless there has been a reduction in service potential.

### *Impairments arising from consumption of economic benefits or service potential*

~~5.25.~~5.26. In accordance with the requirements of the FReM, this manual adopts the following divergence from IAS 36.

~~5.26.~~5.27. Where an impairment loss arises from a clear consumption of economic benefits or service potential, the loss is recognised in operating expenses.

~~5.27.~~5.28. However, to ensure that the foundation trust’s reserves are in the same position as if IAS 36 applied, an amount should be transferred from the revaluation reserve to the income and expenditure reserve. This transfer is the lower of:

(i) the amount of the impairment loss charged to expenses or

(ii) the balance on the revaluation reserve in respect of the asset.

~~5.28.~~5.29. An impairment that arose from a loss of economic benefits or service potential can be reversed if, and to the extent that, the circumstances that gave rise to the loss subsequently reverse.

~~5.29.~~5.30. For the avoidance of doubt, an increase in an asset’s fair value due to an increase in general market prices is a separate event and does not represent a reversal of a previous economic benefit/service potential impairment. It should therefore be accounted for as a revaluation gain rather than a reversal of a past economic benefit impairment.

~~5.30.~~5.31. Where an economic benefit/service potential impairment is reversed, the amount of the reversal recognised in income 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 hadn’t 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.

~~5.31.~~5.32. If, at the time of the original impairment, an amount was transferred from the revaluation reserve to the income and expenditure reserve, an amount must be transferred back to the revaluation reserve when the impairment is reversed to avoid overstating the income and expenditure reserve. The amount transferred back is that which will bring the respective reserves to the balances that they would have had if the impairment and impairment reversal had been treated as a revaluation loss and a revaluation gain in accordance with IAS 36.

***Other impairments***

~~5.32.~~5.33. Other impairment losses, in accordance with IAS 36, are treated as revaluation losses, as described in the PP&E section above. Similarly reversals of such other impairments are treated as revaluation gains in accordance with IAS 36.

~~5.33.~~5.34. As land and buildings are reported separately in the notes to the Statement of Financial Position, impairments and revaluations need to be analysed between land and buildings, based on the valuer's analysis of the overall valuation of the property, and upward revaluations or impairments need to be recognised separately on land and on buildings.

## Borrowing costs (IAS 23)

~~5.34.~~5.35. IAS 23 requires borrowing costs incurred in connection with the acquisition or construction of a qualifying asset (principally property, plant and equipment and intangible assets) to be capitalised and included within the cost of the asset. However, the standard does not apply where such assets are held at a valuation rather than at cost. Thus the requirements of the standard are not mandatory for NHS foundation trusts. The standard notes that it does not preclude entities in this situation from capitalising borrowing costs for initial recognition prior to the first revaluation. Since subsequent asset valuations would not reflect capitalised borrowing costs, an impairment will need to be recognised when the asset is first brought into use, and that impairment would be charged to operating expenses. Consequently, Monitor has decided that NHS foundation trusts should not capitalise borrowing costs for initial recognition and thus instead all borrowing costs should be recognised as operating expenses.

## Private Finance Initiative (PFI) schemes

### Accounting requirements

~~5.35.~~5.36. To determine the appropriate accounting treatment of a PFI scheme, the NHS foundation trust should, in the first instance, determine whether the scheme falls within the scope of IFRIC 12 'Service Concession Arrangements'. A scheme will be within the IFRIC's scope where an infrastructure asset is constructed or acquired for the scheme, or is a pre-existing asset of the NHS foundation trust or of the operator and:

- the NHS foundation trust controls or regulates what services the operator must provide with the property, to whom it must provide them and at what price; and

- the NHS foundation trust controls – through beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement (in accordance with paragraph 6 of the IFRIC, where the residual interest is not significant because the property has been used for its entire useful life during the scheme, this second criteria should be ignored).

~~5.36.~~5.37. Practitioners should note that although IFRIC 12 only applies to service concession arrangements which involve a public service obligation, the *FReM* includes an interpretation which extends the scope of infrastructure assets to also include "permanent installations for military etc. operations and non-current assets used for administrative purposes in delivering services to the public". The *FReM* also extends the scope of the IFRIC to include assets that were previously owned by the operator. This manual follows the *FReM* and also adopts these interpretations.

5.38. Where a scheme falls within the scope of IFRIC 12, the NHS foundation trust should recognise an asset of the ~~property~~ ***infrastructure*** and a corresponding ~~financial~~ finance lease ***liability*** ***in accordance with IAS 17. The initial fair value of the***

***asset is determined in accordance with IAS 17. However, paragraph 6.2.54 of the FReM includes an adaptation of IAS 17 by requiring the asset and liability to be recognised when (a) it is probable that future economic benefits associated with the infrastructure asset will flow to the NHS foundation trust and (b) the cost of the asset can be measured reliably.***

~~5.37.~~5.39. ***Subsequently the infrastructure asset is accounted for as property, plant and equipment and/or an intangible asset.*** The annual Unitary Payment should be separated between an amount for services and an amount for the property. The services element should be recognised in operating expenses to reflect the services received. The property element should be split between repayment of the financial liability and an annual finance charge calculated using the implicit interest rate in the scheme in accordance with the principles of IAS 17.

~~5.38.~~5.40. If the scheme does not fall within the scope of IFRIC 12, then the NHS foundation trust should consider whether the scheme is a lease in accordance with IAS 17 or is an arrangement which contains a lease as defined in IFRIC 4.

### Disclosures

~~5.39.~~5.41. The disclosures in SIC 29 'Service Concession Arrangements: Disclosures' should be provided for all schemes.

~~5.40.~~5.42. The following disclosures should also be made, as required by the FReM.

a) For 'off-balance sheet' service concessions NHS foundation trusts should disclose the total payments to which they are committed for each of the following periods:

- Not later than one year;
- Later than one year and not later than five years; and
- Later than five years.

b) For 'on-balance sheet' service concessions, NHS foundation trusts should disclose the total service element of on-balance sheet service concessions to which they are committed for each of the following periods:

- Not later than one year;
- Later than one year and not later than five years; and
- Later than five years.

~~5.41.~~5.43. Under section 410A of the Companies Act 2006, where an NHS foundation trust is a party to an arrangement (including PFI) which is not reflected in its Statement of Financial Position and where, at the Statement of Financial Position date, the risks or benefits in relation to them are material, it must disclose in a note to the accounts:

- the nature and business purpose of the arrangements, and

- the financial impact of the arrangements on the Trust.

~~5.42.~~5.44. The information need only be given to the extent necessary for enabling the financial position of the NHS foundation trust to be assessed.

## Leased assets (IAS 17)

~~5.43.~~5.45. Under IAS 17, leases of property, plant and equipment are classified as either finance leases or operating leases, according to their characteristics as set out

**Comment [WU5]:** Need to confirm with HM Treasury - We assume that the clarification of fair value in this sentence is correct but need to confirm.

IAS 17 is outside the scope of IFRS 13, and the FReM requires the asset and liability of PFI schemes under IFRIC 12 to be measured in accordance with IAS 17.

in paragraphs 10 and 11 of the standard.

~~5.44.~~5.46. IFRIC 4 - ‘’Determining whether an arrangement contains a lease” requires other contracts to be examined to determine whether or not they contain a lease. For example, does a contract for services require the use of a specific underlying asset to which the recipient has exclusive use? Where such a lease is identified, the payments for it should be separated from the rest of the contract (using estimation techniques if necessary) and then accounted for as a finance or operating lease in accordance with IAS 17.

~~5.45.~~5.47. The assessment under IFRIC 4 should be done when the arrangement is first entered into, and should be re-assessed where the contract terms change or where the nature of the underlying asset changes.

## Investment property (IAS 40)

~~5.46.~~5.48. The accounting requirements for investment property are set out in IAS 40. Practitioners should note the following *FReM* interpretation, which is also adopted by this manual, in respect of identifying investment property. Only those assets which are held solely to generate a commercial return should be considered to be investment properties within the meaning of IAS 40. Where an asset is held, in part, to support service delivery objectives, then this should be considered to be an item of property, plant and equipment and should be accounted for in accordance with IAS 16, as described above. Indications that a property is not an investment property might include, for example, lessees being charged rentals at less than market value, or properties being under-used without any plan to alter their use, dispose of them or otherwise take steps to improve the return on the asset. IAS 40 states that properties occupied by employees, whether or not they pay rent at market rates, are not investment properties.

~~5.47.~~5.49. While few NHS foundation trusts may have investment properties, they may be found in subsidiaries and can often be held by NHS charitable funds. Thus if, and when, the charitable funds are consolidated into the accounts of the NHS foundation trust, then they will need to be accounted for in accordance with IAS 40 in the consolidated accounts.

~~5.48.~~5.50. Investment properties should be measured at fair value in the financial statements. The cost option in the standard is withdrawn. Changes in the fair value of the property should be recognised as revenue gains or losses.

## Financial instruments (IAS 32, 39 and IFRS 7)

~~5.49.~~5.51. The three international accounting standards which deal with financial instruments are IAS 32, IAS 39 and IFRS 7. These standards can be very complex in areas - in particular the very detailed definitions that can be found throughout the standards. Practitioners therefore should ensure they are thoroughly familiar with the standards and take care to ensure that their transactions are properly classified, measured and disclosed.

### *Public Dividend Capital*

~~5.50.~~5.52. HM Treasury has concluded, with the agreement of FRAB, that Public Dividend Capital is not a financial instrument within the scope of IAS 32. It should continue to be presented within ‘Taxpayers’ Equity’ in the Statement of Financial Position.

### *Initial measurement at fair value*

~~5.51.~~5.53. Financial assets and liabilities are initially measured at fair value. Fair value is the amount at which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. 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). However, in some instances, NHS foundation trusts may enter into loan arrangements with other parties where the loan's interest rate is nil or otherwise less than a market rate. In these instances, the fair value of the loan should be determined by reference to market rates. Such a market rate should reflect the credit risk of the loan recipient. Any difference arising between the transaction price and the fair value at initial recognition (the 'Day 1 gain or loss') should be recognised as a revenue gain or loss immediately. Such arrangements should be disclosed in the free text sheets of the FTC.

### Other liabilities

#### *NHS Injury Cost Recovery Scheme*

~~5.52.~~5.54. The NHS Injury Cost Recovery Scheme derives from statute rather than from contracts and therefore does not fall within the scope of financial instruments. The percentage advised by the Compensation Recovery Unit each year of the probability of not receiving the income does not therefore need to comply with the 'objective evidence of impairment' requirement when considering impairment of financial assets under IAS 39.

### Completion of FTC forms: tax and social security balances

~~5.53.~~5.55. All debtor and creditor balances relating to tax and social security should be included in the FTC forms, in accordance with the FTC completion instructions.

## Provisions (IAS 37)

~~5.54.~~5.56. For presentation purposes in the Statement of Financial Position, all provisions need to be separated into current and non-current amounts.

~~5.55.~~5.57. Where the time value of money is material, future cash flows must be discounted. Except where noted otherwise below, all cash flows must be discounted using the short-; medium-; and/or long-term real discount rate(s) published by HM Treasury for the financial year. (Where cash flows are expressed in future prices, then the real discount rate(s) will need to be converted to nominal discount rate(s) before discounting the cash flows).

~~5.56.~~5.58. The short-term rate is to be used for discounting cash flows that are expected to occur up to 5 years after the date of the Statement of Financial Position. The medium-term rate is to be used for cash flows expected to occur after 5 years and up to 10 years after the date of the SOFP. The long-term rate is to be used for cash flows expected to occur beyond 10 years after the date of the SOFP. Where cash flows are expected to fall into more than one of the above time periods, then multiple discount rates will need to be used when calculating the carrying value of the provision.

~~5.57.~~5.59. The short- and medium-term real discount rates are revised annually by Treasury and set on 30 November of the relevant financial year. The long-term real discount rate is 2.2% and will not be changed for the rest of the current Comprehensive Spending Review period.

#### *Clinical negligence claims*

~~5.58.~~5.60. For NHS foundation trusts within the NHSLA clinical negligence scheme, all clinical negligence claims are recognised in the accounts of the NHSLA. Consequently, the NHS foundation trust will have no provision for clinical negligence claims. The NHSLA will provide a schedule showing the claims recognised in the books of the NHSLA on behalf of the NHS foundation trust. This must be disclosed at the foot of the main provisions table.

### *Early retirement costs*

~~5.59.~~5.61. NHS employers are responsible for meeting additional costs arising from early retirement. A provision should be established in relation to these costs as soon as the conditions set out in IAS 19 are met. The amounts due should be discounted to their present value using the pensions discount rate.

~~5.60.~~5.62. For NHS pension scheme early retirements, all cash outflows will be discounted using a single Treasury pensions discount rate, published by Treasury in ***November of the relevant financial year***~~late 2012~~. For local government pension scheme early retirements, this will be the pension liability discount rate for that scheme***.*** Once a decision has been made then agreement must be reached with NHS Pensions as to how the liability will be discharged. If a lump sum payment is agreed, this payment should be charged against the provision initially, and thereafter to operating expenses. If a 5-year payment is agreed, then the provision should be adjusted to this amount and transferred to 'Trade and Other Payables', split appropriately between a current liability and a non-current liability.

### *Injury benefits*

*~~5.61.~~5.63.* NHS employers are responsible for meeting the cost of injury benefits awards in respect of claims made by NHS employees. The entitlement to injury benefits and the amount of the awards are decided by NHS Pensions. The agency will notify the claimants' employer of the award made. Shortly after payments are made, NHS Pensions will invoice the employer for the rechargeable amount. The details provided on the award notification and the subsequent invoice should be used for calculating injury benefit provisions as per IAS 37, including discounting if material, using the appropriate Treasury pensions discount rate for the financial period.

### *EU greenhouse gas emissions allowance trading scheme*

~~5.62.~~5.64. Where the NHS foundation trust is a member of the EU greenhouse gas emission allowance trading scheme, it should recognise a liability as emissions are made and the NHS foundation trust is obliged to deliver allowances equal to the emissions made. The liability should be shown as a provision which should be valued at the best estimate of the expenditure required to settle the obligation. This will usually be market price at the Statement of Financial Position date. The provision will be settled by giving up allowances held and therefore writing down the associated intangible asset.

### *Carbon Reduction Commitment (CRC) Energy Efficiency Scheme*

~~5.63.~~5.65. The CRC scheme is a mandatory cap and trade scheme for non-transport $CO_2$ emissions. Where NHS foundation trusts are registered with the CRC scheme, they are required to surrender to the government an allowance for every tonne of $CO_2$ they emit during the financial year. Therefore, registered NHS foundation trusts should recognise a liability (and related expense) in respect of this obligation as $CO_2$ emissions are made.

~~5.64.~~5.66. The carrying amount of the liability at 31 March will, therefore, reflect the $CO_2$ emissions that have been made during that financial year, less the allowances (if any) surrendered voluntarily during the financial year in respect of that financial year.

~~5.65.~~5.67. The liability will be measured at the amount expected to be incurred in settling the obligation. This will be the cost of the number of allowances/tonnes required to settle the obligation, being initially £12 per allowance/tonne.

~~5.66.~~5.68. Paragraphs 5.22~~5.265.265.22~~ to 5.24~~5.285.285.24~~ describe the accounting requirements for CRC allowances..

## Taxpayer's equity

### Public dividend capital

~~5.67.~~5.69. The closing balance of public dividend capital will be confirmed by the Department of Health.

### *Non-controlling interests*

~~5.68.~~5.70. IAS 27 (Revised) requires Non-Controlling Interests (previously minority interests) in subsidiaries to be shown within taxpayers' equity, as a separate item.

## Notes to the Statement of Financial Position

### General disclosures

~~5.69.~~5.71. NHS foundation trusts should include in their financial statements all relevant disclosures, as set out in standards and interpretations. Additionally, they should include the following disclosure specific to NHS foundation trusts.

### Property, plant and equipment: protected and non-protected assets

~~5.70.~~5.72. The split of net book value for land, buildings and dwellings should also be analysed between protected and non-protected assets. Guidance on this classification is available in *Protection of Assets: Guidance for NHS foundation trusts*.

### Property, plant and equipment: disclosure of historical cost carrying amounts

~~5.71.~~5.73. It is not necessary to disclose the historical cost carrying amounts required by paragraph 77(e) of IAS 16.

### Property, plant and equipment: disclosure of grant, donation or lottery funding

~~5.72.~~5.74. Separate disclosure is required, in the year an asset is acquired, of the fair value of assets funded by government grant, donation or by lottery funding. Where the funder provides cash, rather than the physical assets, any difference between the cash provided and the fair value of the assets acquired should also be disclosed.

### Property, plant and equipment: donated assets

~~5.73.~~5.75. Details of any restrictions or conditions imposed by the donor on the use of a donated asset should be disclosed in a note to the financial statements.

# 6. Other statements and notes

## Statement of Changes in Taxpayers' Equity

6.1 IAS 1 requires entities to prepare a Statement of Changes in Taxpayers' Equity as a primary statement. There is no prescribed format.

## Statement of Cash Flows

6.2 In accordance with IAS 7, the face of the statement should analyse cash flows under the headings of Operating, Investing and Financing cash flows. There is no prescribed format.

6.3 The standard permits discretion as to where certain cash flows may be disclosed, depending on how an entity views them in relation to its activities. In order to ensure consistency of treatment, Monitor has considered where the following cash flows should be disclosed within the Statements of Cash Flows of NHS foundation trusts:

- Interest received on investments represents cash flows associated with investing activities and should be disclosed under that heading.
- Cash flows in relation to the payment of interest, including the interest element of finance lease rentals, are associated with financing activities and should therefore be disclosed under that heading.
- The payment of PDC dividend also represents a cash flow associated with financing activities and therefore should be disclosed under that heading.

6.4 NHS foundation trusts have the option of using either the direct or indirect method in their financial statements, but should note that the FTC forms use the indirect method and so the NHS foundation trust should ensure that it has the information in the format needed to complete these. The financing section of the cash flow statement must include the headings required in the FTC forms.

## Other notes to the accounts

### Prudential Borrowing Limit

6.5 ***The prudential borrowing code requirements in section 41 of the NHS Act 2006 have been repealed with effect from [1 April 2013] by the Health and Social Care Act 2012. The financial statements disclosures that were provided previously are no longer required. For 2013/14 NHS foundation trusts may wish to disclose a note explaining this but this is not mandatory***~~NHS foundation trusts are required to comply with the *Prudential Borrowing Code for NHS foundation trusts*. The prudential borrowing limit set out in that code is made up of two elements:~~

- ~~the maximum cumulative amount of long-term borrowing; and~~
- ~~the amount of any approved working capital facility.~~

~~6.6 NHS foundation trusts should include a note to the accounts disclosing their performance against both elements of their prudential borrowing limit (PBL) at the Statement of Financial Position date. NHS foundation trusts should also disclose their actual performance during the year against the key ratios upon which the PBL is based and explain any significant variances that may be highlighted by this disclosure. The following is an example of these disclosures:~~

~~*The trust has a prudential borrowing limit of £x in 20xx/yy (£x in 20vv/xx). The trust has actually borrowed £x in 20xx/yy (£x in 20vv/xx).*~~

| ~~*Financial ratio*~~ | ~~*Actual ratios 20xx/yy*~~ | ~~*Approved PBL ratios 20xx/yy*~~ | ~~*Actual ratios 20vv/xx*~~ | ~~*Approved PBL ratios 20vv/xx*~~ |
|---|---|---|---|---|
| ~~*Minimum dividend cover*~~ | | | | |
| ~~*Minimum interest cover*~~ | | | | |
| ~~*Minimum debt service cover*~~ | | | | |
| ~~*Maximum debt service to revenue*~~ | | | | |

~~*The trust has £x of approved working capital facility (£x in 20vv/xx). The trust had drawn down £x of its working capital facility at 31 March 20yy (£x at 31 March 20xx).*~~

~~6.7 The NHS foundation trust should add the following narrative explaining what this note refers to:~~

~~"The NHS foundation trust is required to comply and remain within a prudential borrowing limit. This is made up of two elements:~~

- ~~the maximum cumulative amount of long-term borrowing. This is set by reference to the four ratio tests set out in the *Prudential Borrowing Code for NHS foundation trusts*.; and~~
- ~~the amount of any working capital facility approved by Monitor.~~

~~Further information on the *Prudential Borrowing Code for NHS foundation trusts* and *Compliance Framework* can be found on Monitor's website.~~

### Third party assets

~~6.8~~6.6 The *FReM* requires that third party assets are separately disclosed but are not recognised in the accounts of the NHS foundation trust. These are assets held by the NHS foundation trust on behalf of a third party such as money held on behalf of patients or bank balances held on behalf of other organisations with which the NHS foundation trust operates agency arrangements.

### Losses and special payments

~~6.9~~6.7 A note disclosing information on losses and special payments should be included in the accounts. This note should disclose:

- the total number and value of losses and special payment cases;
- the number and value of clinical negligence, fraud, personal injury, compensation under legal obligation and fruitless payment cases where the net payment for the individual case exceeds £100,000;

- a statement that these amounts are reported on an accruals basis but excluding provisions for future losses; and

- any other explanation considered necessary.

~~6.10~~6.8 Guidance on the definitions of losses and special payments can be found in Annexes 4.10 and 4.13 of HM Treasury's *Managing Public Money*. This guidance in these annexes relating to losses and special payments will apply to NHS foundation trusts in full.

### Audit fees

~~6.11~~6.9 This is the total of fees paid or payable to the external auditor for the financial year in question and should be analysed between audit services, further assurance services and other services in accordance with the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI 2008/489). These regulations have been amended with effect from 2012/13 by The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011 (SI 2011/2198) to require a different analysis of non-audit fees. Further information is provided in the draft TECH 04/11 issued by the ICAEW. Non-audit fees are now analysed across the following headings:

1. the auditing of accounts of any associate of the Trust;
2. audit-related assurance services
3. taxation compliance services;
4. all taxation advisory service not falling within item 3 above;
5. internal audit services;
6. all assurance services not falling within items 1 to 5;
7. corporate finance transaction services not falling within items 1 to 6 above; and
8. all other non-audit services not falling within items 2 to 7 above.

Prior year comparatives should be analysed on an equivalent basis.

~~6.12~~6.10 Fees for work done by external auditors under Monitor's *Audit Code for NHS Foundation Trusts* should be disclosed as "Audit services – statutory audit". The amendment regulations also require disclosure of fees payable to an associate of the auditor (e.g. where the Foundation Trust consolidates another entity that has an auditor who is an associate of the Foundation Trust's auditor). .

### Auditor liability limitation agreements

~~6.13~~6.11 In accordance with the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI 489/2008), where an NHS foundation trust's contract with its auditors provides for a limitation of the auditor's liability, the principal terms of this limitation should be disclosed in a note to the accounts.

### Related party transactions

~~6.14~~6.12 NHS foundation trusts should establish which entities and individuals are its related parties, in accordance with IAS 24 (Revised).

~~6.15~~6.13 The following will be related parties of an NHS foundation trust:

- any entity which is member of the same group. This will include all bodies within the scope of the Whole of Government Accounts as well as any subsidiaries (including where appropriate, the NHS charitable funds);
- any associate of the NHS foundation trust (within the meaning of IAS 28);
- any joint venture in which the NHS foundation trust is a venturer (within the meaning of IAS 31);
- key management personnel of the NHS foundation trust or the Department of Health;
- any close family member of any individual within the categories above;
- a person or close family member who has significant influence over the NHS foundation trust;
- any entity controlled, jointly controlled, or significantly influenced by any member of key management personnel or a close family member; and/or
- any pension scheme of which employees of the NHS foundation trust is a member, and any pension scheme of any other related party, as defined above. This will include the NHS Pension Scheme and any other pension scheme of which the NHS foundation trust is a member.

~~6.16~~6.14 NHS foundation trusts should disclose all related party relationships in the notes to the accounts.

~~6.17~~6.15 Details of all material transactions with related parties must also be disclosed in accordance with paragraphs 18 and 19 of IAS 24. Materiality should be considered from the perspective of the related party and not just from the perspective of the NHS foundation trust.

~~6.18~~6.16 Commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (as defined in IAS 37, both recognised and unrecognised) are disclosed if they are with a related party.

~~6.19~~6.17 Paragraph 25 of IAS 24 allows entities which are related parties because they are under the same government control to reduce the volume of the detailed disclosures required by paragraphs 18 and 19 and instead disclose:

- The name of the government and the nature of its relationship with the reporting entity;
- The following information in sufficient detail to enable the reader of the accounts to understand the effect of related party transactions:
  - The nature and amount of each individually significant transaction
  - Qualitative or quantitative information for other transactions which are collectively significant (paragraph 27 of the standard provides guidance on the level of detail which should be disclosed).

~~6.20~~6.18 A specific requirement of the standard is that the total of key management personnel compensation is to be disclosed, analysed across the following categories:

- short-term employee benefits;
- post-employment benefits;
- other long-term benefits;
- termination benefits; and
- share-based payment (not likely to be relevant to NHS foundation trusts).

~~6.21~~6.19 In practice, the disclosure of key management personnel compensation can be combined with the Companies Act disclosure requirements, described in paragraphs 4.42~~4.42~~~~4.41~~~~4.40~~ to 4.45~~4.45~~~~4.44~~~~4.43~~.

**Subsidiary and associated undertakings**

~~6.22~~6.20 Section 409 of the Companies Act 2006, together with regulation 7 and Schedule 4 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), requires the disclosure of certain information in respect of subsidiaries and associates.