Department of Health

NHS Manual for Accounts 2013-14

4 Statements and Notes

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4 Financial Statements and Notes

Introduction

4.1 This chapter addresses the significant application issues that affect the DH group and does not refer to IFRS where there are no NHS-specific aspects to full IFRS application. It also outlines the additional requirements for group consolidation in general: there are additional requirements placed on NHS bodies (eg in handling prior-period adjustments, inter-authority transactions and reporting formats) that go beyond the straightforward application of Standards. The contents and structure of the formats and summarisation schedules are subject to development in the year, under Treasury's "simplification project", for example.

Primary statements: terminology

4.2 The various types of NHS organisation use different presentations for financial data. Treasury permits certain departures from the FReM and "Department Yellow" formats in the interest of presentations that most appropriately report underlying transactions and business activity. Differences arise mainly between those bodies that are Vote-funded (eg commissioning bodies) and those that generate revenue receipts (eg NHS providers). Thus the former will have a Statement of Comprehensive Net Expenditure, while the latter will have a Statement of Comprehensive Income. Again, the former will have a General Fund, while the latter will have a retained Earnings Reserve.

Summarisation schedules

4.3 In addition to the statutory annual report and accounts produced by each entity, bodies need to communicate the same data, with further analysis to permit consolidation, to the department in a standard format that can be automatically processed. For example, where NHS bodies will report intra-group transactions at a relatively summarised level appropriate for local reporting, more extensive entity-by-entity figures are required to meet the practical requirements of consolidation.

4.4 Summarisation schedules are therefore produced for each reporting entity. While such schedules are not formally audited, audit assurance that the schedules and accounts are consistent is sought. The Department is then able to establish that the national consolidated account is based on underlying audited accounts data.

4.5 Summarisation schedules are produced towards the end of the financial year and are supported by detailed completion instructions. NHS bodies will wish to adapt their Annual Reports and Accounts to reflect their unique business requirements and to meet the needs of their stakeholders (eg by adding detail to some notes and disclosures and omitting others where immaterial). Summarisation schedules, as computer-input documents, cannot be amended locally and must be completed as set out in completion instructions.

Accounting policies and materiality (IAS1, IAS8)

4.6 DH group entities must adopt the accounting policies set out in this manual and shown in the example accounts format's Accounting Policies Note. While IAS8 permits entities to select appropriate accounting policies, group reporting requirements require that the same standards are applied consistently across the group.

4.7 While statutory accounts may be edited to avoid disclosures of immaterial transactions, for example, summarisation schedules may not be edited and all specified disclosures should be completed.

Estimation and judgement

4.8 Under IAS1, NHS bodies should disclose information about key sources of estimation uncertainty at the Statement of Financial Position date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year. Notes must give details of their nature and carrying amount at the Statement of Financial Position date.

4.9 The determination of the carrying values of some assets and liabilities may require estimation of the effects of future uncertain events. Examples include: the estimation of the recoverable amount of plant, property and equipment in the absence of recently observed market prices; or assumptions underlying the estimation of material provisions.

Gross and Net accounting

4.10 The overarching principle is that transactions should be accounted for in accordance with accounting standards, with all treatments having been agreed by both parties. Generally, this means revenue income and expenditure should be recorded gross unless the transaction is of a non-trading nature and an organisation is deemed to be acting solely as an agent and does not gain any economic benefit from the transaction. One example of where it may be appropriate to account for transactions on a net basis relates to employee benefits, where a member of staff is employed jointly by a Trust and another NHS body, that is, part-time for each. In this case, only the element of the salary relating to the Trust should be recorded as expenditure as in substance the employee works for both organisations and the recharge is merely an administrative arrangement.

4.11 Similarly, for full-time staff secondments, it is necessary to ensure that the national summarised accounts correctly consolidate employee benefits, and only costs and numbers of staff actually providing service for an individual body are reported in that account. As such it is important that each arrangement is assessed individually against the relevant accounting standards and that the treatment is agreed between parties to avoid mismatches during the agreement of transactions and balances process.

4.12 Where one NHS body "A" does work for another "B" on an agency basis, (for example, ordering supplies in bulk to gain efficiencies, then passing supplies on the B and recharging appropriately) and does not gain any economic benefit from the transaction, the transactions it processes on behalf of the other body should not be reflected in the A's accounts. Where "A" is *paid* for providing the service and *adds value* to the process, a gross accounting approach would be appropriate. Transactions that are of a trading nature should be shown as gross by both parties.

Going concern

4.13 The FReM (2.2.15) notes that in applying paragraphs 25 to 46 of IAS 1, preparers of financial statements should be aware of the following interpretations of Going Concern for the public sector context.

- For non-trading entities in the public sector, the anticipated continuation of the provision of a service in the future, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence of going concern. However, a trading entity needs to consider whether it is appropriate to continue to prepare its financial statements on a going concern basis where it is being, or is likely to be, wound up.
- Sponsored entities whose statements of financial position show total net liabilities should prepare their financial statements on the going concern basis unless, after discussion with their sponsors, the going concern basis is deemed inappropriate.
- Where an entity ceases to exist, it should consider whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern in its final set of financial statements.

4.14 The 2012-13 SHA and PCT accounts were therefore drawn up on a going concern basis, as were those of NHS trusts that closed in the period. Should a NHS body have concerns about its "going concern" status (and this will only be the case if there is a prospect of services ceasing altogether) it should raise the issue with the Department.

Prior period adjustments

4.15 This manual makes a clear distinction between:

- Those PPAs requires as a result in a change in accounting policy (a "national" PPA), and
- PPAs that are requires under IAS8 to correct material errors in the accounts ("local" PPAs)

4.16 In the case of the former, the FReM will usually prescribe the appropriate handling arrangements, and the Department will issue detailed guidance on restatement of accounts and the collection of restated data via summarisation schedules.

4.17 For 2013-14, the consolidation of NHS Charitable Funds into underlying accounts in accordance with IAS27 is likely to require prior-year restatement.

4.18 Local PPAs present difficulties in terms of reconciling local accounts data with that in national consolidated accounts. Generally, the correct application of IAS8 will result in a requirement for local accounts to be restated, but will prohibit a matching national restatement (as the different materiality levels operating locally and nationally impact on the decision on whether to restate).

4.19 As a result, individual local PPAs may appear in the statutory accounts but such PPAs will not be disclosed in the summarisation schedules. If the national consolidated account is not to be restated, it follows that opening 1 April xx balances reported to the Department must be identical to closing 31 March xx balances. Similarly, at the national level, prior period comparator income and expenditure figures will be unchanged.

4.20 The resulting inconsistency between local accounts and the summarisation schedules based on those accounts is handled by clear disclosures of the nature and impact of the PPA (as required by IAS8) and a detailed reconciliation in the schedules between the accounts and the schedules opening balances.

Events after the reporting period (IAS10)

4.21 IAS10 is applicable: it states the requirements as to whether events after the end of the end of the reporting period should be adjusted in the financial statements. Adjusting events are those providing evidence of conditions existing at the end of the reporting period, whereas non-adjusting events are indicative of conditions arising after the reporting period (the latter being disclosed where material).

4.22 NHS bodies treated the closure of SHAs and PCTs on 1 April 2013 as non-adjusting events after the reporting period, as their 2012-13 statements were prepared on a going concern basis and the reporting of balances and transactions in that year were not directly affected by transition. Entities that close at the end of 2013-14 (whether formally on 31 March or 1 April 2014) are likely to report the event in the same way (unless going concern considerations apply and/or the successor entity is a body outside the public sector).

Absorption accounting

Transfer of functions within the public sector (other than 1 April 2013 transition)

4.23 The Treasury FReM requires a form of absorption accounting in the public sector below Department level. Annex 9 outlines the normal application of absorption accounting in the NHS, while Annex 10 notes the agreed departure from FReM in respect of transition and closure of bodies on 1 April 2013.

4.24 This departure from FReM is that the counter entry to the SOFP transaction dr/cr asset is to the General Fund/retained earnings reserve rather than current year income or expenditure.

4.25 In each case, revaluation reserves are preserved by means of a subsequent transaction (dr General Fund/retained earnings reserve, cr revaluation reserve).

4.26 Neither treatment requires restatement of prior year results.

Charitable funds consolidation

4.27 Until 2012-13, Treasury required that NHS charitable funds were excluded from consolidation (the ONS classification of NHS Charitable Funds to the public sector required Resource Account consolidation, but this was not reflected in local accounts). From 2013-14 however the FReM requires that IAS27 is followed in this respect. Where the Standard's criteria of "common control" are satisfied, related charitable funds will be consolidated in the accounts of the individual entity.

4.28 As a change in national accounting policy, IAS8 requires restatement of comparators for 2012-13, with accounts presenting the SOFP position at 1 April 2012, 1 April 2013 and 1 April 2014 as if the funds had always been consolidated.

4.29 Detailed guidance and amended summarisation schedules will be issued to facilitate restatement and consolidation. Both local accounts and summarisation schedules will be presented so as to identify the NHS body's own transactions and the consolidated position in separate columns.

4.30 Charitable funds' balances and transactions with the linked NHS body must be identified and eliminated in local consolidations. Further, elimination data (ie transactions and balances with other DH group or WGA entities) will need to be submitted to the Department to permit consolidation with other at the group level

4.31 The charitable fund accounts themselves are prepared under a charities SORP which is UK GAAP based. Further, the legislative timetable for the production of the charity accounts for the Charities Commission does not agree with the NHS accounts' timetables. Bodies will need therefore to arrange to make the required consolidation adjustments to (a) align the charitable funds results with those prepared under IFRS and FReM; (b) eliminate transactions and balances between the NHS body and the related funds; and (c) obtain charitable funds data in time to meet the entity's own accounts timetables.

Other business combinations (IFRS3)

4.32 IFRS3 *Business Combinations* excludes bodies that are under common control from its scope. Public sector bodies are deemed to be under common control, so IFRS3 is applicable only to those business combinations that involve an entity or entities outside the public sector (as defined by the ONS).

4.33 Where IFRS3 is applicable, the combination is accounted for at fair value at the date of combination. Goodwill arising from the transaction is accounted for as an asset: it is not amortised but is subject to impairment testing as required by IAS36 *Impairment of Assets*.

Subsidiaries, associates, joint ventures.

4.34 The following Standards are relevant, subject to the FReM guidance on applicability:

- IAS27 Consolidated and Separate Financial Statements
- IAS28 Investments in Associates
- IAS31 Interests in joint Ventures
- SIC12 Consolidation – Special Purpose Entities
- SIC13 Jointly Controlled Entities – non-monetary contributions by venturers

4.35 The group boundary is determined by the control criteria used by the Office of National Statistics (ONS) rather than by reference to the Standards above.

4.36 Public bodies that would fall to be consolidated within the group accounts under these Standards will only be consolidate if they have been classified to the Departmental group by the ONS. If they are not classified in this way, an entity's investment in the subsidiary or associate should be reported as an asset under IAS39.

Merger accounting

4.37 The FReM gives guidance on merger accounting. It is unlikely that NHS bodies will need to apply merger accounting as the arrangement applies to "machinery of Government" transactions that cross Departmental boundaries. Even where this arrangement applies, the local body will apply absorption accounting (see above para 4.22 et seq). The Department will however bring the transaction to account using merger accounting.

4.38 NHS bodies therefore need to be aware of the circumstances in which merger accounting will be required in the group account, so that the Department can be advised of the arrangement on an individual case basis.

Business combinations etc disclosures

4.39 A NHS body that receives the transfer of functions, assets or liabilities must disclose:

- 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.

4.40 The party that transfers the functions, assets or liabilities outwards should provide similar disclosures. Where that body has dissolved, the final set of accounts should contain an “events after the balance sheet date” disclosure, giving this detail.

4.41 Summarisation schedules will require more a detailed analysis to enable the transitions to be reconciled between transferor and transferee.

Statement of Comprehensive Net Expenditure (SOCNE)

Administration and programme expenditure analysis

4.42 The consolidated DH group must analyse revenue and expenditure as administration or programme. While the revenue and expenditure of NHS Trusts and Foundation Trusts, will be exclusively programme, other bodies are required to carry out this analysis in such a way that transactions can be eliminated correctly, by programme and admin splits, on consolidation. Detailed accounts and consolidation schedules formats and guidance are issued separately to those bodies reporting on this basis.

Gains and losses on transfers by absorption

4.43 The general structure of the SOCNE/SOCI is given in the Chapter 5 example accounts format. A notable departure from IAS1 formats is the presentation of gains or losses arising from transfers (of assets and liabilities) by absorption. Where these occur, the counter-entry to the SOFP addition/reduction in asset values is a credit to realised income in the year (gain) or a charge to expenditure (loss). These items are shown in the SOCNE/SOCI below net operating costs, but before “other comprehensive income”. They thus impact on the performance of the entity for the year.

4.44 For NHS Trusts, an adjustment to reported performance for the period is permitted: this removes the impact of such gains and losses from the reported underlying “breakeven” performance of the trust.

Income

4.45 IAS18 applies, and the classification of types of income is shown in the example accounts format. Vote-funded entities must distinguish between Parliamentary Funding and income: it is possible for entities to receive cash from the Department in either category. FReM (11.2.15) details those items that must be dealt with through the General fund and not as income. A rule of thumb is that entities will recognise income where it delivers a specific service or provides goods to the Department, using usual order and invoicing systems.

4.46 Income and expenditure (in addition to the analysis by category required by the group account) must be analysed by intra-group or intra-WGA counter-party to permit consolidation. More detail is given on the DH website to assist with the "Agreements of Balances" process.

4.47 As noted above, the "gross" accounting principle applies to intra-NHS transactions. By default, income and expenditure are recorded separately and not netted off. For some transactions (for example, where a body acts as an *agent* for another and receives no consideration for providing a service) it is appropriate to account "net" with the agent excluding both income and expenditure from its books.

Partially completed treatments spells.

4.48 Partially completed spells can pose practical difficulties, particularly between commissioners and providers of healthcare. Both parties should consider the terms of the contracts that they have entered into to determine how revenue should be recognised in accordance with IAS 18.

4.49 From the provider viewpoint, where 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.

4.50 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 provider and commissioner to establish and agree a suitable pro rata basis, and where material, disclose this in the accounting policy note.

4.51 It is of course essential that both parties share information to ensure consistent income and expenditure entries across the group.

Government grants (IAS20) and donations

4.52 NHS bodies 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 entity becomes entitled to it. Where the grantor imposes conditions about the use and application of the grant or donation the grant is recognised as deferred and carried forward to future financial years to the extent that the condition has not yet been met.

4.53 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 entity 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.

4.54 Credits arising from receipt of grants and donations are taken to the SOCNE/SOCI.

Statement of Financial Position (SOFP)

4.55 IAS1 refers. The content and format of the Statement is set out in Treasury's "Department Yellow" example format and reflected in Chapter 5 of this manual. The Chapter 5 format specifies the required analysis of PPE and intangibles by category of asset.

4.56 Assets and liabilities must be analysed as 'current' and 'non-current' on the face of the statement of financial position. IAS1 provides the following definitions:

4.57 An asset shall be classified as current when it satisfies any of the following criteria

- it is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle,
- it is held primarily for the purpose of being traded,
- it is expected to be realised within twelve months after the end of the reporting period; or
- it is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period.

All other assets shall be classified as non-current.

4.58 'A liability shall be classified as current when it satisfies any of the following criteria:

- it is expected to be settled in the entity's normal operating cycle,
- it is held primarily for the purpose of being traded,

- it is due to be settled within twelve months after the end of the reporting period, or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

All other liabilities shall be classified as non-current.'

4.59 IAS 1 adds that 'the operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents' and that 'when the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months'. The standard requires that where an asset or liability line in the statement of financial position combines amounts that fall due within and beyond one year, the split must be disclosed in the notes.

Statement of Comprehensive Taxpayers Equity (SOCTE)

4.60 The relevant standards are IAS1 Presentation of Financial Statements and IAS20 Accounting for Government Grants and Disclosure of Government Assistance. Points to note on the example accounts format:

- "Release of reserves to SOCNE/SOCII" shows transfers that are required eg on disposal of available-for-sale assets where earlier revaluation gains have been taken to the revaluation reserve.
- 'Reserves eliminated on dissolution' should be used only by those bodies involved in mid-year reconfigurations. It allows bodies closing before 31 March to reflect the disposal of their net assets and elimination of reserves in the period. Bodies that have merged mid-year should use this line to make adjustments for any reserves that have been eliminated as part of the merger.

'Transfers between reserves' includes those:

- between the revaluation reserve and retained earnings, for the excess of current cost depreciation over the depreciation amount that would have been charged on a historic cost basis,
- from the revaluation reserve to retained earnings where there is disposal of an asset with a balance in the revaluation reserve,
- from the revaluation reserve to retained earnings in respect of "economic" impairments charged to the revenue account.

4.61 For NHS trust and FTs: Public dividend capital is issued by statutory instrument therefore the only adjustments trusts can make to PDC balances are those notified by DH. When appropriate, 'New PDC received' and 'PDC repaid in year' must be gross figures. The line 'PDC written off' should be used, if appropriate, for a mid-year merger and in the rare event that PDC write-off is agreed by Treasury. ‘Other movements in PDC in-year’ is used for ‘non-cash’ PDC received on establishment.

Statement of Cashflows

4.62 The relevant standard is IAS7 *Statement of Cash Flows*. For foreign exchange entries, the relevant standard is IAS21 *the Effects of Changes in Foreign Exchange Rates*. Points to note on the example accounts format:

- Amounts must be shown gross. This is very important for receipts and repayments of loans and PDC (where relevant), to enable DH reconciliations
- Non-cash elements of the operating surplus are now eliminated on the face of the Statement of Cash Flows
- ‘Net foreign exchange gains/(losses)’ are those arising during the year. It does not include gains/losses accruing on the restatement of cash and cash equivalents at the end of the year (see below)
- ‘Dividends paid’ (Trusts, FTs) is the actual amount paid during the year
- ‘Rental proceeds’ is cash received under rentals recognised in Note 14 ‘Investment Revenue’, that is:
    - normal planned rentals under finance leases where the NHS trust is the lessor, and
    - PFI contingent rental revenue where the NHS body sub-leases a PFI asset and where annual charges are increased by the full uplift in RPI each year.
- ‘Public dividend capital received/repaid’ refer only to cash movements in PDC (NHS trusts and FTs only)
- ‘Other capital receipts’ includes government grants and donations from NHS charitable funds, to buy non-current assets
- ‘Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies’. This is the gain/loss on the restatement of year end cash and cash equivalent balances using foreign exchange rates ruling at the year end. This, plus the foreign exchange gains and losses, above, will equal the total ‘gain/loss on foreign exchange’ in the ‘other gains and losses’ note

4.63 Cash and cash equivalents in the Statement of Cash Flows should include bank overdrafts where they are repayable on demand and form an integral part of the entity’s cash management. This is different to the treatment in the Statement of Financial

Position, where IAS 39 prohibits overdrafts from being set-off in this way.

Notes to the Accounts

Note 1 - Accounting policies

4.64 The relevant standards are IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Points to note:

- NHS bodies must use the accounting policies given in Note 1 of the example accounts in Chapter 5. This enables DH to prepare valid summarised accounts. Alternative policies are only allowed where indicated in the example accounts

- An individual policy should be omitted from the note if it has no material application in the entity

4.65 Extra information must be included where necessary to give a true and fair view.

Note 2 - Pooled budgets

4.66 The relevant standard is IAS31 Interests in Joint Ventures. Annex 1 refers. Points to note:

- Inclusion of a pooled budget note in the accounts is optional

- When involved in such an arrangement, a NHS body must bring only its share of the transactions and balances of the arrangement to account. Where cash is held in a “pooled budget”, each party must bring its own share of that cash to account (ie one partner may hold cash on behalf of another, but each will being a proportion of that cash to account).

Note 3 - Operating segments

4.67 The relevant standard is IFRS 8 Operating Segments. Points to note:

- an operating segment is a component of an entity:

- that engages in activities from which it may earn revenues and incur expenses (including revenue and expenses generated internally),

- whose operating results are regularly reviewed by the entity’s ‘chief operating decision maker’ (CODM) to make decisions about resource allocation to the segment and assess its performance, and

- for which discrete financial information is available.

4.68 A separate segment must be reported only if it exceeds one of the quantitative thresholds: 10% of revenue, profit/loss or assets; unless this would result in less than 75% of the body's revenue being included in reportable segments. An 'all other segments' category must be included, as part of the reconciliation to total revenue, profit or loss, and assets

4.69 The amounts reported for each operating segment should be the amounts reported to the CODM. Only those elements of cost, revenue, assets and liabilities that are used by the CODM for the purposes of allocating resources and measuring performance should be given

4.70 The example accounts operating segments note is an example only: alternative formats can be used.

Note 4 - Income generation activities

4.71 There is no relevant accounting standard: this note is a Treasury requirement.

4.72 In addition to reporting operating segments under IFRS, Treasury's FReM requires bodies to provide additional disclosures for fees and charges raised under legislation, where the full cost exceeds £1 million or the service is otherwise material in relation to the accounts. This includes NHS income generation activities. Where the additional disclosures are shown separately in the operating segments note, they do not need to be repeated.

Note 5 - Revenue from patient care activities

4.73 (Not relevant for all types of entity). The relevant standard is IAS18 Revenue. Points to note:

- Revenue from patient transport services should only be included here by ambulance trusts

- 'Local Authorities' includes income from them under patient care joint arrangements and for delayed discharges

4.74 Injury costs recovery (ICR) revenue should be accrued only when form NHS2 has been received and it has been confirmed from the NHS provider's records that injury treatment has been given. If there are discrepancies that need investigating, income should not be accrued. On average, the Compensation Recovery Unit advise that there is an 12.6% *[to be updated during the year]* probability of not receiving the income. Therefore, if it is material, 12.6% of accrued ICR revenue should be included under the 'Provision for impairment of receivables' heading within operating expenses. However, where providers have evidence that this rate is not correct then they should use their local information to inform their bad debt provision.

4.75 'Non-NHS – other' records all income for the provision of patient care services from sources other than those detailed above, such as prescription charges, income from social care clients and income from Scottish, Welsh and Irish bodies.

Note 6 - Other operating revenue

4.76 The relevant standard is IAS18 Revenue. Points to note:

- **'**Education, training and research' includes income under contracts with DH from centrally held budgets and Health Education England.

- **'**Charitable and other contributions to expenditure' is the total of all grants and other non-exchequer money received in support of the revenue activities of the entity, including transfers from grant deferred income. Where a contribution to expenditure is received in the form of a benefit in kind, the value of the benefit should be disclosed here and under the appropriate operating expenses line

- 'Non-patient care services to other bodies' covers income from the provision of services such as laundry, pathology, payroll, internal audit, training, to bodies both within and outside the NHS

- 'Income generation' is any income from non-patient-care activities that are designed to create surplus income, such car-parking

- 'Rental revenue' is the total revenue (normal and contingent) from operating leases where the body is the lessor. It also includes contingent rent from finance leases, but not from sub-leasing PFI where the annual payment increases annually by the full uplift of RPI (see Note 14). Guidance on this subject is given in Annex 5 to this chapter

- **'**Other revenue' is any income not chargeable to the above headings, such as staff payments for use of cars provided by the body, and income received directly from the Department of Health for non-patient care services. It also includes, in respect of PFI schemes:

  - the release of the deferred credits for PFI 'free' lifecycle items
  - the release of deferred credits in respect of balances relating to schemes funded principally by third parties
  - the element of the unitary payment received from sub-lessee entities in respect of services

  Guidance on these is in the document 'Accounting for PFI under IFRS', which is in the download/IFRS section of the finman website.

Note 7 - Revenue

4.77 The relevant standard is IAS 18 Revenue, paragraph 35(b).

4.78 Gross accounting is the default position for NHS bodies unless the transaction is of a non-trading nature and an organisation is deemed to be acting solely as an agent and does not gain any economic benefit from the transactions. In some circumstances, where each party agrees the accounting treatment and the sums involved, it may be appropriate to report net expenditure where entities share or jointly incur expenditure as opposed to entering into inter-authority trading transactions.

Note 8 - Operating expenses

4.79 (The analysis will vary by types of entity, and immaterial items may be combined in accounts, but not in summarisation schedules). The relevant standards are IAS 1 *Presentation of Financial Statements*, paragraph 99 and IFRS 7 *Financial Instruments: Disclosures*, paragraph 20(e). The cost of services provided under PFI schemes should be shown under relevant headings. Operating lease rentals (normal and contingent) and finance lease contingent rentals (but not PFI contingent rentals where the annual unitary payment increases by the whole of RPI each year) should be included under the relevant heading. See ***Annex 5*** to this chapter.

4.80 Services from other NHS bodies should be used only when services cannot be allocated to other expense lines. Recharges should be shown under the operating expense heading to which the recharge relates rather than under these headings.

4.81 Purchase of healthcare from non-NHS bodies includes private patient care bought by the entity, and expenditure on healthcare from Scottish, Welsh and Irish health bodies.

4.82 Chair & Non Exec Directors (to be excluded from Employee Benefits): This line records the allowances paid to the Chair and non-executive directors. These are not included under employee benefits.

4.83 Employee Benefits: This records all NHS body employee benefits, excluding any costs that are capitalised. It equals, and is recorded on the same basis as, the figure for non-capitalised employee benefits on the Employee Benefits Note.

4.84 When staff are employed on research and development activities, include their cost here rather than under the 'Research and development' line.

4.85 **Supplies and services - clinical.** This is current expenditure on supplies and services for clinical use. It includes expenditure on occupational and industrial therapy materials, drugs, medical gases, dressings, X-ray equipment, and blood. It also includes expenditure under related maintenance contracts.

4.86 Supplies **and services - general** is current expenditure on such things as cleaning equipment, materials and external contracts; food and contract catering; hardware and crockery; and staff uniforms, patient clothing, laundry and bedding and linen.

4.87 Consultancy **services**. This line records spending on management consultancy. Please see ***Annex 6*** for a detailed description of what should be included here.

4.88 Establishment is current expenditure on administrative expenses such as printing and stationery, advertising and telephones.

4.89 Transport includes all transport-related current expenditure, such as vehicle insurance, fuel, maintenance equipment, materials and external contracts.

4.90 Premises includes current expenditure on rates, electricity, gas and furnishings and fittings.

4.91 **Provision for impairment of receivables** should include ***12.6%*** of accrued injury cost recovery (ICR) revenue to reflect the average value of claims withdrawn, as advised to DH by the Compensation Recovery Unit. Where a provider has evidence of its specific rate of withdrawal, that figure should be used instead. Further guidance on ICR can be found on the 'finman' site at http://www.info.doh.gov.uk/doh/finman.nsf/4db79df91d978b6c00256728004f9d6b/a47831c49cbf5c23002569ba003aaaae?OpenDocument

4.92 Other auditor's remuneration: This excludes any internal audit costs. The Companies Act (disclosure of auditor remuneration) Regulations 2005 require, in addition to the audit fee, disclosure of non-audit fees across the following headings (the example accounts format does not show these – they should be added locally as appropriate):

- audit fee for associated companies
- taxation services
- IT services
- internal audit services
- valuation and actuarial services
- litigation services
- recruitment and remuneration services
- all other services

4.93 Clinical **negligence** is the entity's contribution to the NHS Litigation Authority.

4.94 **Research and Development**: where research and development expenditure can be separated from patient care activity, it should be recorded here but the cost of staff employed on R&D activity should be included under 'Other Employee Benefits' rather than here.

4.95 **Other** includes movements of provisions for emissions made under the EU Emissions Trading Scheme (see Annex 2 to this chapter) and compensation paid to cover debt recovery costs under the Late Payment of Commercial Debts (Interest) Act 1998. It does not include Interest on late payment of commercial debt, which is recorded under Finance Costs on Note 16.

Note 9 - Operating Leases

4.96 The relevant standards are IAS17 Leases, SIC15 Operating Leases – Incentives, SIC27 Evaluation the Substance of Transactions Involving the Legal Form of a Lease, IFRIC4 Determining whether an Arrangement contains a Lease.

4.97 A contingent rent is the portion of a lease payment that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time, such as, percentage of future sales or future price indices.

Note 10.1 - Employee benefits

4.98 This note is a requirement of the Companies Act 2006, section 411. IA19 is relevant. Points to note:

- The figures exclude non-executive directors but include executive board members and staff recharged by other NHS bodies. The total (after deduction of capitalised staff costs) will equal that for "employee benefits" in the expenses note which excludes all non-executive directors' costs and any staff costs that have been capitalised

- Permanently employed staff – this is staff directly employed by the entity and includes staff on outward secondment or on loan to other organisations. The recovery of the cost of these staff should be netted off only where the transaction is deemed to be non-trading in nature and where the organisation is acting solely as an agent and does not gain any economic benefit from the transaction.

- The 'Other' column includes those on inward secondment or loan from other organisations, agency staff and those engaged on a contract to undertake a project or other temporary task. It does not include amounts payable to contractors for services, that is, where the staff remain under the control of the contractor

- 'Salaries and wages' exclude termination benefits (redundancy payments) and the value of non-monetary benefits

- 'Social security costs' is the total of the employer's national insurance contributions net of statutory maternity pay deductions

- 'Employer contributions to NHS Pension Scheme' does not include early retirement costs

- 'Other pension costs' includes early retirement costs and pension costs to non-NHS schemes, such as a local government scheme

- A line has been provided for 'other post-employment benefits', although NHS bodies are unlikely to have anything to record. IAS19 gives the examples of post-employment life insurance and medical care

- Termination benefits will include redundancy payments, MARS and compensation for loss of office.

Note 10.2 - Staff numbers

4.99 This note is a requirement of the Companies Act 2006, section 411. Points to note:

- This note is analysed over the same column headings as employee costs, above, and the same definitions apply. Staff on outward secondment should not be included in the average number of employees
- In allocating employees to categories, the employee definitions should be those in the Information Centre's Occupational Code Manual:http://www.ic.nhs.uk/statistics-and-data-collections/data-collections/information-supporting-our-data-collections
- The average number of employees is calculated as the whole time equivalent number of employees under contract of service in each week in the financial year, divided by the number of weeks in the financial year. The 'contracted hours' method of calculating whole time equivalent number should be used, that is, dividing the contracted hours of each employee by the standard working hours.

Ill health retirements

4.100 The number of people retired of ill health grounds and the associated additional accrued pension liabilities should be disclosed. Further information and guidance on completion of this note will be issued at year-end on the "finman" website.

Note 10.3 - Staff Sickness disclosures

4.101 NHS bodies are also required to make a report on staff sickness. This disclosure is not necessarily required in the accounts themselves but must be included in the annual report and on summarisation schedules. Details of the disclosure are included in the guidance for summarisation schedules.

Note 10.4 - Exit Packages

4.102 NHS bodies must provide an analysis of exit packages agreed during the financial year. The bandings for these are set out in the example contained in Ch 5. Exceptionally in the accounts, this note is ***not*** on an accruals basis, rather it should be completed on the basis of the date when an agreement for the departure was made.

Note 10.5 - Pension costs

4.103 The relevant standard is IAS 19 *Employee Benefits.* A standard pensions disclosure note is provided each year by NHS BS and this is made available on the DH website.

Note 11.1 - Better Payment Practice code – measure of compliance

4.104 The note reports compliance with the better payment practice code in respect of invoices received from both NHS and non-NHS trade creditors. The code is summarised as:

- Target: pay all NHS and non-NHS trade creditors within 30 calendar days of receipt of goods or a valid invoice (whichever is later) unless other payment terms have been agreed

- Compliance: at least 95% of invoices paid (by the bank automated credit system or date and issue of a cheque) within thirty days or within agreed contract terms.

Points to note:

- The note must relate to all invoices paid during the year, excluding those issued up to 31 March that are in dispute at the year-end

- Further details and guidance on the Better Payment Practice Code and 'A User's Guide to late payments legislation' can be found at www.payontime.co.uk

Note 11.2 - The Late Payment of Commercial Debts (Interest) Act 1998

4.105 The Late Payment of Commercial Debts (Interest) Act 1998 allows entities to claim interest on the late payment of debts by contracting partners.

Note 12 - Investment income

4.106 The relevant standards are IAS 17 *Leases*, IAS 18 *Revenue*, paragraph 35(b), IFRS 7 *Financial Instruments: Disclosures*, paragraphs 20(b) and (d).

4.107 PFI contingent rental revenue is the contingent rent received under a PFI sublease under which the annual payment increases by the whole RPI uplift each year. See ***Annex 5*** to this chapter.

4.108 Other finance lease revenue is the finance cost element of finance leases where the entity is the lessor.

4.109 Other loans and receivables includes the interest element of finance leases where the entity is the lessor.

4.110 Where any financial asset has been impaired (directly or through the 'provision for impairment of receivables' account) any investment revenue receivable (e.g. interest; unwinding of discount on long-term financial asset) should be disclosed under 'impaired financial assets' in this note.

Note 13 - Other gains and losses

4.111 The relevant standards are IAS 1 *Presentation of Financial Statements*, paragraph 98(c) and (d), and IFRS 7 Financial Instruments: Disclosures, paragraph 20. Realised overage should be included as a gain on disposal of property.

4.112 Guidance on financial instruments is given in Annex 4 to this chapter.

Note 14 - Finance costs

4.113 The relevant standard is IFRS 7 *Financial Instruments: Disclosures*, paragraph 20(b)

4.114 Interest on loans includes interest payable on loans received under the capital loans and deposits scheme.

4.115 Guidance for 'interest on obligations under PFI contracts' is available in the document 'Accounting for PFI under IFRS', which is available on the download/IFRS section of the "finman" website.

4.116 Interest on late payment of commercial debt must equal the amount disclosed in the note 'The Late Payment of Commercial Debts (Interest) Act 1998.

4.117 Other interest expense includes interest on early retirements payable over five instalments.

4.118 Other finance costs include unwinding of the discount on provisions and the net finance cost of non-NHS pension schemes (see Annex 3 to this chapter).

Note 15 - Property, plant and equipment

4.119 The relevant standard is IAS16 Property, Plant and Equipment and IFRS5 Non-current assets held for sale and discontinued operations. NHS bodies are required to follow the revaluation model. FReM guidance (6.2.7) and the associated guidance on the Treasury website refers. Annex 8 discusses revaluation issues in the NHS context.

4.120 For 'in use' non-specialised property assets fair value should be interpreted as market value for existing use. For specialised property for which no effective market exists, "fair value" is deemed to be the depreciated replacement cost for a modern equivalent asset (ie one that is capable of delivering the same throughput or volume of service).

4.121 Note that a Treasury consultation is underway in 2013-14, consequent on the issue of IFRS13 *Fair Value*. FReM amendments in the future are likely to include adaptations and interpretations of this standard for the public sector.

4.122 The example accounts format at Chapter 5 provides the categorisation of PPE into the required headings.

4.123 Asset transactions between NHS bodies must be dealt with as non-cash transfers, accounted for under the absorption accounting methodology.

4.124 Disposals by sale do not feature in this Note as assets are reclassified as 'non-current assets held for sale' before the sale.

4.125 Charges on properties will result in the property being included in this note if the conditions of IFRIC 12 (as adapted by the FReM) or IFRIC 4 apply. See the guidance Accounting under IFRS for properties where a body holds a legal charge on the Download/IFRS section of the Finman website.

4.126 Land includes land underlying buildings. Land underlying or associated with dwellings should be separately disclosed.

4.127 Dwellings are buildings used entirely or primarily as residences. Include any associated structures, such as garages, and parking areas.

4.128 Assets under construction include contributions of land and cash to PFI and LIFT schemes until the property is made available to the entity.

4.129 Transport equipment is equipment for moving people and/or objects, for instance cars, ambulances.

4.130 Information technology relates to hardware used for processing data and communications. Where purchased software is integral to the operation of hardware, for example operating system software, the cost should be capitalised as part of that item of property, plant and equipment.

4.131 Reclassifications are the movement of assets from one category to another within the entity. The most likely occurrence is from assets under construction to buildings, on completion of construction.

4.132 Reclassified as held for sale. This line removes assets from 'property plant and equipment' when they become available for sale, as defined by IFRS 5
.

4.133 Points to note for the cost or valuation section of the table:

- **Cumulative depreciation** should be carried forward from one year to another, as should "cost or valuation" except where the asset class has been revalued in the period. In that case, cumulative depreciation should be "zeroed" to ensure that net book value is carried forward as the opening cost or valuation balance.

- **Revaluation gains**. NHS bodies are required to ensure that assets are carried at current cost using a suitable method selected by them. Where indices are used, these should be widely recognised and in common use. The source of the index should be disclosed in the narrative to the note in the accounts. The revaluations line should only be used for upward revaluations, and even so, only when the upward revaluation is not the reversal of an impairment.

- **Impairments** relate to impairment losses charged to reserves. This includes downward revaluations.

- Reversals **of impairments** relates to increases in the value of assets that reverse earlier impairments taken to reserves.

4.134 Points to note for the depreciation section of the table:

- **Depreciation at 1 April XX** is used for opening depreciation relating to plant and machinery, transport and equipment, information technology, and furniture and fittings. No cumulative depreciation should be carried forward for land, buildings and dwellings *where these have been revalued in the period.*

- Impairments relates to impairment losses charged to expenditure. Note the FReM adaptation of IAS36 Impairment of Assets outlined in Chapter 3. Economic losses are always taken, in full, to the SOCNE/SOCI as a realised operating expense in the year, even if the revaluation reserve is in credit. This contrasts with the Standard's approach, which takes losses to the revaluation reserve in the first instance. The FReM brings the SOFP in line with one prepared under IAS36 by requiring a subsequent transfer of a balance from the revaluation reserve to the General Fund/Retained Earnings

- **Reversal of impairments** relates to increases in the value of assets that reverse earlier impairments taken to expenditure.

Capitalisation threshold of fixed assets - de minimis limits

4.135 NHS bodies adopt a capitalisation threshold of £5,000. This figure includes VAT where is not recoverable.

Grouped assets

4.136 "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.

4.137 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

4.138 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

4.139 Assets which are capital in nature, but which are individually valued at less than £5,000 but more than £250, may be capitalised as collective, or “grouped”, assets where they are acquired as part of the initial setting-up of a new building. 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 IAS16 terms.

Note 16 - Intangible Non-Current assets

4.140 The relevant standards are IAS38 Intangible Assets and SIC32 Intangible Assets – Web Site Costs.

4.141 Guidance under Note 15: Property Plant and Equipment is generally applicable. The same points as for property plant and equipment, apply in respect of donated assets; disposals; reclassifications; reclassified as held for sale; impairments and reversals of impairments.

4.142 Where there is an active market, intangible assets must be carried at a market value. In all other respects, the guidance above, for ‘Property Plant and Equipment’, applies.

4.143 EU Emissions Trading Scheme allowances should be included here if they are not expected to be realised within twelve months of the end of the reporting period. Further guidance on accounting for EU ETS can be found at Annex 2.

Economic Lives of Non-Current Assets

4.144 The range of the remaining economic lives of non-current assets used by NHS bodies should be disclosed below the non-current assets Note, together with other revaluation details.

Note 17 - Analysis of impairments and reversals

4.145 The relevant standard is IAS 36 *Impairment of Assets*, paragraph 130. Downward revaluations are included in impairments. However, the Treasury FReM has a public sector-specific adaptation of the Standard (see Chap 3 on IAS 36) which follows more closely the UK GAAP treatment. An impairment arising from the consumption of economic resources (eg revaluation prior to disposal) will be taken in full to the revenue account, whatever the state of the associated revaluation reserve. Where a balance exists on the revaluation reserve, this is transferred to the General Fund/Retained Earnings Reserve. Price/market movement impairments should be taken to the revaluation reserve, to the extent that a balance on that reserve exists. The revaluation reserve should not show a negative balance.

4.146 More detailed guidance and definitions on the components of this note is issued separately as part of summarisation schedule completion guidance.

Note 18 - Investment property

4.147 Where there is an intention to dispose of property, but the IFRS 5 criteria for inclusion in Note 24 are not met (e.g. where property is not being actively marketed because the market is depressed) it will be included here.

Note 19 - Commitments

4.148 For capital commitments, the relevant standards are IAS16 *Property, Plant and* Equipment, paragraph 74(c) and IAS38 *Intangible Assets*, paragraph 122(e).

4.149 Other commitments (excluding leases, PFI and LIFT) under non-cancellable contracts are also shown.

Note 20 - Intra Government and other balances

4.150 This Note is a FReM requirement. Intra-government balances are defined as balances between the reporting entity and other bodies within the boundary set for the whole of government accounts. Details of this boundary and a full list of public corporations and trading funds are available on the Treasury website at

http://www.hm-treasury.gov.uk/wga_guidance_centralgov.htm

4.151 The disclosure should be analysed between:

- balances with other central government bodies
- balances with local authorities
- balances with NHS Trusts and Foundation Trusts
- balances with public corporations and trading funds
- balances with bodies external to government - this is required to enable this note to balance back to the receivables/payables figures in the annual

accounts.

4.152 The current/non-current totals must agree to the current/non-current totals at Notes 22.1 and 27.

Note 21 - Inventories

4.153 The relevant standard is IAS2 *Inventories*. The example accounts provide the headings thought to be most relevant to NHS bodies. Where other categories of material amounts of inventory are held the accounts, the format should be expanded to include these.

4.154 Work-in-progress is the value of items in the process of manufacture. It does not include partially completed episodes of healthcare.

Note 22.1 - Trade and other receivables

4.155 The relevant standards are IAS 1 *Presentation of Financial Statements*, paragraph 78(b) and IFRS7 *Financial Instruments Disclosures*, paragraph 36. Receivables from Scottish, Welsh and Irish health bodies should be treated as non-NHS.

4.156 **Prepayments and accrued income** includes PFI lifecycle items received later than planned. Guidance is given in the document 'Accounting for PFI under IFRS, which is on the download/IFRS section of the finman website.

4.157 **Other receivables** includes operating lease receivables and income due from the Compensation Recovery Unit under the Injury Costs Recovery Scheme.

Note 22.2 - Receivables past their due date but not impaired

4.158 The relevant standard is IFRS 7 *Financial Instruments: Disclosures*, paragraph 37(a)

Note 22.3 - Provision for impairment of receivables

4.159 The relevant standard is IFRS 7 *Financial Instruments: Disclosures*, paragraph 16. The term 'impaired' is used in the standard; this includes the write-off or provision for an irrecoverable debt.

4.160 Amount written off during the period refers to receivables written off that were included in the provision.

When included in the provision the entries would have been:
Dr *SOCNE/SOCI*
Cr *Provision for impairment of receivables*
At write-off, the entries are:
Dr *Provision for impairment of receivables*
Cr *Receivables*

4.161 "Amount recovered during the year" refers to income received in respect of receivables that were included in the provision.

When included in the provision the entries would have been:
Dr *SOCNE/SOCI*
Cr *Provision for impairment of receivables*
At write-off, the entries are:
Dr *Provision for impairment of receivables*
Cr *SOCNE/SOCI*

Note 23 - NHS LIFT investments

4.162 This note gives details of any LIFT investments held by the entity. Details of investments held at the closing Statement of Financial Position date should be disclosed in the accounts and analysed by equity shareholding and loan-stock holding.

Note 24 - Other financial assets

4.163 The relevant standard is IFRS7 Financial Instruments: Disclosures, paragraph 8, IAS32 Financial Instruments: Presentation, IAS 39 Financial Instruments: Recognition and Measurement and IFRIC9 Reassessment of Embedded Derivatives.

4.164 Guidance on financial instruments is given in Annex 4 to this chapter. Financial assets carried at fair value through profit or loss includes embedded derivatives.

Note 25 - Other current assets

4.165 The relevant standard is IAS 1 *Presentation of Financial Statements*, paragraph 77.

4.166 EU Emissions Trading Scheme allowances should be included here when they are expected to be realised within twelve months of the end of the reporting period. Further guidance on accounting for EU ETS can be found at Annex 2.

Note 26 - Cash and cash equivalents

4.167 The relevant standard is IAS 7 Statement of Cash Flows, paragraph 45.

4.168 The definition of cash and cash equivalents may be different between the Statement of Financial Position and the Statement of Cash Flows due to the treatment of bank overdrafts. Where overdrafts are used as part of day-to-day cash management, then they may be included within cash and cash equivalents in the Statement of Cash Flows. However, for the Statement of Financial Position, IAS 32 disallows set-off so bank overdrafts are included under 'Borrowings'. This note reconciles the two.

4.169 The figure for "Current Investments" should capture only cash equivalent balances that fall within the definition in IAS 7: "Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value”

4.170 There should be no “cash equivalents” balances included in the lines for cash at GBS and cash at bank and in hand, notwithstanding that some cash-equivalents may be held in commercial bank accounts.

Note 27 - Non-current assets held for sale

4.171 The relevant standard is IFRS 5 *Non-current Assets Held for Sale and Discontinued* Operations. A 'disposal group' is a group of assets to be disposed of (by sale or otherwise) together as a group in a single transaction. Associated liabilities are liabilities directly associated with those assets that will be transferred in the transaction.

Note 28 - Trade and other payables

4.172 The relevant standard is IAS 1 *Presentation of Financial Statements*, paragraph 77. Payables to Scottish, Welsh and Irish health bodies should be treated as non-NHS.

Note 29 - Other liabilities

4.173 The relevant standard is IAS 1 *Presentation of Financial Statements*, paragraph 77.

4.174 The 'PFI asset – deferred credit' line reflects free lifecycle items and balances relating to schemes funded principally by third parties. Guidance on these is in the document 'Accounting for PFI under IFRS' on the download/IFRS section of the finman website.

4.175 Pension liabilities (non-NHS scheme) should be included under 'Other'.

Note 30 - Borrowings

4.176 The relevant standard is IAS 1 *Presentation of Financial Statements*, paragraph 77.

4.177 Bank overdrafts include any cash balances that are negative in the entity's books, regardless of whether there is a formal overdraft with the bank.

4.178 Guidance on PFI lifecycle costs is given in 'Accounting for PFI under IFRS', which is available on the Download/IFRS section of the finman website.

Note 31 - Other financial liabilities

4.179 The relevant standard is IFRS 7 *Financial Instruments: disclosures*, paragraph 8 (e).

4.180 Guidance on financial instruments is provided at Annex 4 to this chapter Note 23 - Capital commitments

4.181 IAS 16 (para 74c) and IAS 38 (para 122e) require that the contractual commitments at the year end to purchase property, plant and equipment and intangible assets are disclosed. An asset provided under a finance lease does not give rise to statement of financial position entries in respect of the creation of the fixed asset and its related capital creditor until the asset is delivered and is operational in the entity's hands. When a NHS body has signed an "on-balance sheet" finance lease contract in the accounting period (whether PFI or other), but the asset does not become operational until a future period, a disclosure in the format provided in Chapter 5 should be included as a note to the Accounts.

Note 32 - Deferred income

4.182 This note tracks movements in deferred income balances.

Note 33 - Finance obligations (as lessee)

4.183 The relevant standards for this note are IAS17 *Leases*, SIC27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* and IFRIC4 *Determining whether an Arrangement contains a Lease.*

4.184 The minimum lease payments are:

- the payments over the term of the lease,
- less the following:
  - contingent rent;
  - costs for services;
  - costs that will be reimbursed;
  - any amounts guaranteed by the other party or a related party to them, and,
  - where the lessee has the option to purchase the asset at a price that makes it reasonably certain at the inception of the lease that the option will be exercised, the payment to exercise the option.

4.185 Minimum lease payments are shown in those columns undiscounted: discounting is applied under "less future finance charges" to bring the total to a discounted (present value) figure.

4.186 The present values of minimum lease payments are the 'minimum lease payments' discounted to present value. As the discounting has been applied in these three rows, no entry is required against "less future finance charges".

4.187 A general description of significant lease arrangements should also be included in this note.

Note 34 - Finance lease receivables as lessor

4.188 The note should include a reconciliation between the gross investment in finance leases at the Statement of Financial Position date and the present value of the minimum lease payments receivable at the Statement of Financial Position date.

Note 35 - Provisions

4.189 The relevant standard is IAS37 *Provisions, Contingent Liabilities and Contingent Assets*.

4.190 "Other" includes provisions for emissions under the EU Emissions Trading Scheme.

4.191 There is no need to provide a disclosure of the movements in provisions in the prior year because IAS37 (paragraph 84) provides an exemption from the general IAS1 requirement for comparative information.

4.192 Treasury requires the expected timing of cash flows to be stated in relation to the remainder of the current Spending Review period then five yearly periods rather than the time bands required by IAS37. The relevant periods are given in the example accounts at chapter 5. In addition, the timing of expected cashflows determines the current & non-current slit required for the accounts.

4.193 Where the time value of money is material, futures cashflows are discounted. Treasury issues guidance on appropriate discount rates, and this is summarised below at Annex 7.

Clinical negligence provisions

4.194 Where the NHS Litigation Authority has assumed responsibility for settlement of claims, the relevant provisions will be brought to account by the NHSLA. NHS bodies should however disclose, within the provisions note, the value of those liabilities recognised by the NHSLA on their behalf. The NHS Litigation Authority will provide the figure for the narrative disclosure of clinical negligence liabilities each year.

Carbon Reduction Commitment Energy Efficiency Scheme (CRC)

4.195 The CRC scheme is a mandatory cap and trade scheme for non-transport CO2 emissions. Where NHS organisations are registered with the CRC scheme, they are required, with effect from 2011-12, to surrender to the government an allowance for every tonne of CO2 they emit during the financial year. Therefore, in line with IAS 37, “Provisions, contingent liabilities and contingent assets, NHS organisations should recognise a liability (and related expense) in respect of this obligation as CO2 emissions are made.

4.196 The scheme is operated by the Environment Agency. Full details of the CRC Scheme are available at the Agency’s website:

www.environment-agency.gov.uk/crc

4.197 The FReM guidance is as follows:

- Participation by reporting entities in the CRC Scheme gives rise to an asset for allowances held, and for a liability, which is recognised (as emissions are generated) for the surrender of the allowances to the CRC Registry.

- CRC Scheme assets are classified as either current or non-current intangible assets, or if held for the purpose of trading, as a current asset. The asset, whether classified as a current or as an intangible (current or non-current) asset shall be measured initially at cost. Allowances that are issued for less than their fair value shall be measured initially at their fair value, with the difference between fair value and the purchase price recognised as income.

- Scheme assets in respect of allowances shall be revalued at fair value where there is evidence of an active market. Where there is no evidence of an active market, scheme assets in respect of allowances shall be measured at cost, as a proxy for fair value.

4.198 The carrying amount of the liability at 31 March 2014 will, therefore, reflect the CO2 emissions that have been made during 2013-14.

4.199 The liability will be measured at the amount expected to be incurred in settling the obligation. 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.

Note 36 - Contingencies

4.200 The relevant standard is IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The likely outcome of a contingency will usually be based on legal advice. A potential liability might be split into two parts with one part recognised in the statement of financial position (an accrual or provision, dependant on probability) and the other part disclosed as a contingency.

4.201 “Overage” in property transactions is a contingent asset.

Note 37 - PFI and LIFT - additional information

4.202 The relevant standards are IFRIC 12 Service Concession Arrangements, and SIC 29 Service Concession Arrangements: Disclosures.

4.203 **Discounting**: where a discount rate implicit in the transaction cannot be established, the Treasury discount rate used for investment appraisal and arriving at current asset/liability values is used. Treasury “Green Book”: Green Book - HM Treasury refers.

4.204 NHS bodies should apply both Treasury’s guidance Accounting for PPP arrangements, including PFI contracts, under IFRS, in chapter 6 of the *Government Financial Reporting Manual* (FReM) at www.financial-reporting.gov.uk and DH guidance Accounting for PFI/LIFT under IFRS on the download/IFRS section of finman.

4.205 IFRIC 12 applies to service concession arrangements for infrastructure assets.

4.206 Recognition of assets under PPP or PFI arrangements

4.207 An amendment to the FReM (6.2.54) notes that the grantor (under a service concession arrangement) should recognise the infrastructure as a non-current asset and value it in the same way as other non-current assets of that generic type. The asset will be recognised when:

- it is probable that future economic benefits associated with the asset will flow to the organisation; and

- the cost of the asset can be measured reliably.

4.208 The grantor should consider the asset recognition criteria, together with the specific terms and conditions of the binding arrangement, when determining whether to recognise the service concession asset during the period in which the asset is constructed or developed. If the asset recognition criteria have been met a work-in-progress service concession asset and associated liability should be recognised. If not and the grantor makes contributions to the operator in advance of the asset coming into use, the grantor should account for those payments as prepayments and then set against the finance lease liability established when the asset is recognised.

4.209 Any embedded derivatives in the arrangement and any guarantees to the operator must be accounted for under financial instrument standards (IAS32 and IAS39). Guidance on financial instruments is provided in Annex 4 to this chapter.

4.210 Enhancements/additions to on-Statement of Financial Position PFI assets that are financed through the unitary charge should be recognised when they are provided. Those financed by the NHS body should be recognised as its own asset.

Note 38 - Impact of IFRS treatment

4.211 This note reflects budgetary information that was collected as management information in previous years. It identifies impacts to revenue expenditure flowing from the implementation of IFRS and where DH budgetary treatments may differ from the IFRS treatment. Under alignment/CLOS this data forms part of the Department's Resource Account and so is now included as an auditable part of the Annual Accounts format.

4.212 Detailed guidance on the completion of this Note is included separately in the summarisation schedule guidance. Comparator figures are not required for prior years as the disclosure (a) is not required by IFRS and (b) only current year information is of relevance to the Department.

Note 39 - Financial Instruments

4.213 The relevant standards are IAS 32 **Financial Instruments: Presentation**, IAS39 **Financial** Instruments**: Recognition and Measurement**, IFRS7 Financial Instruments: Disclosures and, IFRIC9 Reassessment of Embedded Derivatives.

4.214 The disclosures in this note apply to all the entity's financial instruments except:

- interests in subsidiaries, associates and joint ventures where they are consolidated, partially consolidated or equity-accounted; and

- employers' rights and obligations under employee benefit plans.

4.215 They therefore apply to financial instruments whose accounting is unchanged by the financial instrument standards, such as current payables and receivables, and financial instruments that are measured under other standards, such as provisions arising under contracts, finance leases and PFI liabilities. See paragraph 7 of the financial instrument guidance in ***Annex 4*** of this chapter for the full list of financial instruments.

4.216 Borrowings includes financial liabilities under PFI contracts and finance leases.

Note 40 - Events after the reporting period

4.217 The relevant standard is IAS10 *Events after the Reporting Period*. Adjusting events will be reflected in the financial statements.

4.218 Where non-adjusting events after the reporting period are so material that non-disclosure could influence the economic decisions of users taken on the basis of the financial statements, the following information is required:

- the nature of the event, and
- an estimate of its financial effect, or a statement that such an estimate cannot be made.

4.219 NHS bodies should disclose the date when the financial statements were authorised for issue and who gave that authorisation (IAS 10.17).

Note 41 - Related party transactions

4.220 Related party disclosures must be in accordance with IAS24 *Related Party Disclosures*.

4.221 HM Treasury considers Government Departments and their agencies, and Department of Health Ministers, their close families and entities controlled or influenced by them, as being parties related to NHS bodies.

4.222 A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the entity's perspective but material from a related party viewpoint then the entity must disclose it.

4.223 NHS bodies must disclose as a related party all linked charities including the nature of the relationship, and details of material transactions between the body and the linked charity.

Note 42 – Losses and special payments

4.224 HM Treasury's *Managing Public Money* and detailed summarisation schedule completion guidance on the subject should be followed. The example accounts format at Chapter 5 illustrates the contents of this disclosure. Figures recorded here are recorded on an accruals basis.

4.225 The relevant standard is IAS1 Presentation of Financial Statements, paragraph 77.

Note 43 - Performance information (NHS trusts only)

4.226 The performance outturn against targets listed below are reported in this Note by NHS trusts. These results form part of the trusts' annual report and accounts. Detailed descriptions of their operation and instructions on the completion of the Note are given in the trust-specific summarisation schedules completion guidance.

- Breakeven performance
- Capital cost absorption rate
- External financing limit
- Capital Resource limit

Note 44 - Third party assets

4.227 This note is a Treasury requirement. Third party assets are assets held by the entity on behalf of a third party. Examples are money held on behalf of patients, or balances belonging to other parties to a pooled budget where the organisation is the host. Third party assets are not recognised in the entity's SOFP.

Annex 1: Pooled Budgets

The relevant standard is IAS 31 *Interests in Joint Ventures*.

1. A pooled budget is not an entity in its own right and so will fall into the IAS31 category ‘jointly controlled operations’ (IAS31.13-17) or, if there is joint control or joint ownership of assets, the IAS31 category ‘jointly controlled assets’ (IAS31.18-23).

2. If the entity is in a ‘jointly controlled operation’, it must recognise in the financial statements:
    - the assets the entity controls
    - the liabilities it incurs
    - the expenses it incurs
    - its share of the income from the pooled budget activities.

3. If the entity is involved in a ‘jointly controlled assets’ arrangement, in addition to the above, the following must be recognised:
    - the entity’s share of the jointly controlled assets (classified according to the nature of the assets)
    - its share of any liabilities incurred jointly
    - its share of the expenses jointly incurred.

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4. It is for the entity to decide whether to include in the financial statements a policy note on the subject and a note of the income and expenditure and balances of the pooled budget. There is no IFRS requirement to do so but, either way, working papers will be needed to support accounts entries that result from pooled budget activities.

5. It is important to remember that a pooled budget is simply an aggregation of balances that belong to the pooled budget partners rather than an entity in its own right. For example, if cash is injected into a pooled budget and this is used to contribute to the purchase of an asset and to buy services, with some cash held at the year end, the financial statements must include:
    - the share of the asset purchased (plus share of the depreciation and any change in value)
    - the expenditure (and payables, if relevant) on which the cash has been used

- an appropriate share of income (and receivables, if relevant) in line with the pooled budget agreement

- the cash balance remaining at year-end, even if this is held on an agency basis by a pooled budget partner (in their financial statements the cash would be a 'Third Party Asset').

6. An entity may purchase services available under a pooled budget of which it is a partner. The expenditure on the services will become income of the pooled budget, of which the entity will be due a share as a partner of the pooled budget. Similarly, if the entity owes money for services provided under the pooled budget, the creditor balance in its books will be a debtor balance of the pooled budget, of which it owns a share. The agreement of balances exercise will only apply to the share owned by other partners of the pooled budget.

Annex 2: Accounting for Defined Benefit Pension Schemes

1. The relevant standard is IAS19 Employee Benefits. The FReM requires NHS bodies to account for the *NHS Pension Scheme* as a defined contribution scheme and so they will generally recognise an expense each year equal to their total employer contribution.

2. For NHS bodies that have staff who are members of a defined benefit pension scheme other than the NHS Pension Scheme)and where their assets and liabilities in the scheme can be separately identified, for example, Local Government Pension Schemes) IAS19 (revised 2011) is relevant.

3. The Standard requires:

    - that 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

    - that administration costs are now generally charged to expenses as incurred

    - that '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, NHS bodies should continue to recognise it in the General Fund/Retained Earnings Reserve.

4. Where NHS bodies employ staff who are members of a Local Government Pension Scheme, it is common for the scheme to contract with an actuary on behalf of all member bodies.

Disclosures

5. IAS19 contains disclosure requirements in respect of defined benefit pension plans. (IAS19 para 135). NHS bodies will wish to take into account materiality, particularly where there are relatively few employees belonging to such schemes. Disclosures should:

    - explain the characteristics of the defined benefit plans and risks associated with them.

    - identify and explain the amounts in the financial statements arising from the defined benefit plans

    - describe how the defined benefit plan may affect the timing and uncertainty of the entity's future cash flows

Annex 3: Financial Instruments

Introduction

1. The relevant standards are:

   IAS32 *Financial Instruments: Presentation*

   IAS39 *Financial Instruments: Recognition and Measurement*

   IFRS7 *Financial Instruments: Disclosures*

   IFRIC9 *Reassessment of Embedded Derivatives*

2. The standards are complex and this guidance provides only a basic overview of the issues that may affect NHS bodies.

3. DH and all NHS bodies have financial instruments. However, the accounting for basic short-term financial instruments will be unchanged by the adoption of these standards. All bodies will need to check whether they have longer-term or more complex financial instruments whose accounting may change. If so, you will need to ensure that the requirements in the standards are followed. Treasury has also provided some guidance (Chapter 9 of the FReM), which is available at

   http://www.hm-treasury.gov.uk/frem_index.htm

Financial instruments

4. IAS 32 defines a *financial instrument* as:

   'a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity'.

5. The definitions for financial assets and liabilities are complex. From DH/NHS bodies' perspective: *financial assets* will be:

   - Cash,
   - An equity instrument (eg shareholding) of another entity, or
   - A contractual right to receive cash or another financial asset (or to exchange financial assets/liabilities with conditions favourable to the entity)

   and *financial liabilities* will be:

   - a contractual obligation to pay cash or another financial asset (or to exchange financial assets/liabilities with conditions unfavourable to the entity).

6. Some examples of what are and what are not financial instruments will help understanding. Firstly, other than for cash**,** *there has to be a contract.*

7. The following are *not* financial instruments because they arise under legislation rather than under contract:

- Public Dividend Capital
- European Union Emissions Trading Scheme allowances
- Early retirement liabilities (with the NHS Business Services Authority)
- Injury benefit liabilities (with the NHS Business Services Authority)

The following are, or could be, financial instruments:

- Cash at bank and in hand
- Receivables and payables
- Loans
- Investments
- Provisions (which arise under contract)
- Finance leases
- PFI
- Interests in subsidiaries, associates and (in some circumstances) joint ventures

However, to be classed as financial assets or liabilities, they must meet the definitions in 5, above, for example, prepayments are not financial assets because they are contractual rights to receive goods or services rather than to receive cash or another financial asset.

8. The accounting for some financial instruments is already covered by specific financial reporting standards:

- Provisions (IAS37)
- Leases (IAS17)
- PFI (Mirror of IFRIC12)
- Interests in subsidiaries, associates and joint ventures (IAS27, 28 and 31)

9. This leaves cash, other receivables and payables, loans, and other investments to be accounted for under the financial instrument standards. The standards require financial instruments to be recognised initially at fair value. In many instances the transaction value is fair value and so the accounting will not change. This is the case for cash, short-term receivables, short-term payables, and loans and investments that carry a market rate of interest. Also, the government financial reporting manual dictates the accounting for investments of resource account bodies in entities outside the resource accounting boundary (for example loans and public dividend capital). It requires these to be held at historic cost less any impairment. The accounting for these investments is not affected by the financial instrument standards.

10. The financial instrument standards are therefore only likely to bring changed accounting for:

- Long-term receivables and payables that are financial instruments. They are likely to require discounting to reflect fair value.
- Any loans that are not at a market rate of interest. Their value would need to be adjusted to reflect fair value.
- Any investments that are not at a market rate of interest, that are not interests in subsidiaries, associates or joint ventures and that are not investments of resource account bodies in bodies outside the resource accounting boundary. Their value would need to be adjusted to reflect fair value.
- Derivatives and embedded derivatives. These may need to be recognised for the first time.
- Any financial guarantees
- Any hedge instruments.

Derivatives

11. A derivative is a financial instrument that derives its value from an underlying variable. For a financial instrument to be a derivative it must have all three of the following characteristics:

- The value changes in response to a change in a specified variable eg interest rate, foreign exchange rate, prices index, credit rating, commodity price and so on
- Requires no or little initial investment, and
- Is settled at a future date

A contract with a bank to buy foreign currency, at a future date, at an agreed rate, is an example of a derivative.

12. Embedded derivatives are derivatives that form part of another contract and cannot be transferred independently. IAS 39 defines an *embedded derivative* as:

'*a component of a hybrid (combined) instrument that also includes a non-derivative host contract – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other* *variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.'*.

13. A critical indicator of an embedded derivative is variation of cash flows over the life of a contract. Embedded derivatives can arise inadvertently through market practices or common contracting arrangements. An example is given at the end of this section.

14. Examples of host contracts that could have embedded derivatives are:

    - Purchase and sale agreements
    - Debt instruments
    - Leases (operating and finance)
    - PFI contracts

    Contracts rarely make explicit reference to a derivative. Instead they may include reference to, for example:

    - Pricing based on a formula
    - Right to purchase/sell additional units
    - Indexed to/adjusted by
    - Limits
    - Rights to cancel/extend/repurchase

15. However, an embedded derivative is only accounted for separately from the host contract if the economic characteristics and risks of the embedded derivative are *not closely related to* those of the host contract i.e. the economic characteristics or risks of the embedded derivative differ from those of the host contract.

16. For instance, if a loan with an RPI-linked component is given by DH to a PFI consortium, the index-linked element does not need to be accounted for separately. This is because the index relates to inflation in the entity's own economic environment: it is closely related because all parties are UK-based and all the materials and workforce are being paid for in Sterling.

17. However, a lease for a photocopier where part of the price of the contract varies with the price of paper is an example of an embedded derivative that is not closely related. The cost of paper does not have the same economic characteristics or risks of the lease of the machine. In this case, the embedded derivative would be accounted for separately from the lease.

18. Care must be taken in this assessment since, for example, if the effect on the fair value or cash flows is magnified eg twice the rate of RPI, this may be sufficient to remove the close relationship. IAS39 does not define the term 'closely related' but a series of examples is contained in the Application Guidance of the standard.

19. If an embedded derivative is closely related to the host contract, the embedded derivative can be ignored and the contract accounted for in accordance with the relevant standard. If an embedded derivative is not closely related to the host contract and the value of the embedded derivative cannot be determined, the whole contract must be accounted for 'at fair value through profit and loss', that is, changes in fair value of the

whole contract go through the operating cost statement or income and expenditure account.

20. Unless clearly immaterial, DH/NHS bodies will need to review all contracts to identify any embedded derivatives that are not closely related to the host contracts, so that they can be accounted for separately from the host contracts, with changes in fair value taken through the operating cost statement or income and expenditure account (unless the derivative is used for hedging). Auditors will need to see evidence of the review. Bodies will also need to implement a system change to ensure that, in future, embedded derivatives that are not closely related are identified at the time of entering into contracts.

21. <u>Example</u>

An NHS Trust enters into a contract to buy a large machine from the US. The machine was built using US components and was assembled in the US. If the contract was settled in US dollars, the embedded foreign currency derivative would be closely related to the host contract and so would not be accounted for separately. However, if the contract was settled in Euros, the embedded derivative would not be closely related, movements on the exchange rate with the Euro having different economic characteristics and risks from those of the host contract. If the value of the host contract was 2m Euros, the fair value of the derivative would be the difference between the 2m Euros translated at the period closing rate and the original spot rate when the contract was entered into. If the Euro spot rate when the contract was entered into was 1.48 and the period end spot rate was 1.61, the accounting treatment would be:

2m/1.48 = £1,351,351

2m/1.61 = £1,242,236

The fair value is £1,351,351 – £1,242,236 = £109,115

The accounting entries would be:

Dr: Derivatives £109,115

Cr: Gains/losses from derivatives (I&E A/c) £109,115

Financial guarantees

22. Public sector organisations may take on liabilities by issuing specific guarantees (usually for loans) and writing letters of comfort.

Under IAS 39, a financial guarantee is ‘ a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.’ These contracts can take various legal forms, including a guarantee, some types of letters of credit, letters of comfort or a credit insurance contract.

23. Indemnities, for example for activities of board members, do not meet the above definition for financial guarantees. Instead, they should be treated as contingent liabilities under FRS 12.

24. Example

DH guarantees a private sector loan to an NHS body, to secure a beneficial rate of interest. The fair value of the guarantee is the present value of the interest saving (i.e. the difference between the interest charged and what would have been charged without the guarantee) over the life of the loan. DH would account for this as:

Dr: Investment in NHS body

Cr: Guarantee liability

The guarantee liability is amortised to the operating cost statement over 5 years.

In the NHS body's accounts, the same figure is credited to equity (capital contribution by DH). This, together with the credit to 'loan payable' balances the cash received.

Hedge instruments

25. Hedging is the use of financial instruments provided by commercial markets to offset changes in fair values or cash flows of another transaction, to control or limit risk. It is unlikely that DH/NHS bodies use hedge instruments.

Recognition and de-recognition

26. Financial assets and liabilities are recognised when the body becomes a party to the contract or, in the case of trade receivables/payables, when the goods have been delivered.

27. Financial assets should be derecognised when:

- the contractual rights to the cash flows of the financial asset have expired, or
- the financial asset has been transferred (eg sold) and the risks and rewards of ownership have transferred.

Financial liabilities should be derecognised when the liability has been discharged, that is, paid or expired.

Measurement and classification

28. Initially, all financial instruments must be measured at fair value. Fair value is a quoted market price, if available. If there is no market price, a valuation technique should be used, for example the value of a recent similar transaction at arms length or discounted cash flows from the transaction. If discounted cash flows are used, the discount rate to use is the higher of the rate intrinsic to the financial instrument and the real discount rate set by Treasury. Exceptionally, if no reliable estimate of fair value can be made, cost can be used.

29. Subsequent measurement is different for different categories of financial Instruments. The categories in the tables, below, are defined in FRS 26.

Financial assets	**Examples**	**Subsequent Measurement**
Financial assets carried at 'fair value through profit and loss'	Derivatives (other than if a financial guarantee or a hedge instrument)	Fair value with movements through OCS/I&E A/c
Held to maturity investments	These are rare in practice. They are long term investments unlikely to be held by DH and NHS bodies	*Amortised cost
Loans and receivables		*Amortised cost (except loans by DH to bodies outside the departmental boundary. Treasury requires these to be carried at cost less impairment)
Available for sale	LIFT investments	Fair value with movements through reserves. Accumulated gains or losses in equity are recycled to OCS/I&E A/c on de-recognition or impairment of the investment

Financial Liabilities	**Examples**	**Subsequent Measurement**
Financial liabilities carried at 'fair value through profit and loss'	Derivatives	Fair value with movements through OCS/I&E A/c
Financial Guarantees		The higher of The amount determined in accordance with FRS 12 and The amount initially recognised less, where appropriate, cumulative amortisation
Other financial liabilities	Loans from DH	*Amortised cost

*Amortised cost is the initial value minus both principal repayments and cumulative amortisation.

30. In determining the categorisation of their financial instruments, DH and NHS bodies must ensure that they are aware of, and can manage, the financial consequences.

Impairments

31. Financial assets, other than those measured at fair value through profit and loss, must be reviewed for impairment at each statement of financial position date. There is no requirement to impair financial liabilities.

32. Impairments should be recognised when they occur, not when expected. An impairment loss must impact on future cash flows, and there must be objective evidence of impairment as a result of one or more events that occurred after initial recognition. IAS 39 provides examples. *Impairments are always charged to the SOCNE/SOCI, not to reserves*.

33. The measurement and accounting for impairments varies depending on the classification of the financial asset:

    Financial assets carried at amortised cost (**loans and receivables, and held to maturity investments)** – the impairment loss is measured as the difference between the carrying amount and the present value of future estimated cash flows discounted at the asset's original effective interest rate (see FRS 26.9). If the impairment loss decreases in a subsequent period, and this can be related to an objective event occurring after the impairment was recognised (for example, an improvement in credit rating) the impairment can be reversed. The reversal must not result in a carrying amount higher than what the amortised cost would have been had the impairment not been recognised.

    Financial assets carried at cost – the impairment is calculated as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the current market rate for similar financial assets. These impairment losses may not be reversed.

    Available for sale financial assets – Where there is evidence of impairment of this class of asset the amount of any fall in value previously recognised in reserves must be removed from reserves and charged to the operating cost statement or income and expenditure account. The impairment loss may be reversed if its reversal can be objectively linked to an event occurring after the impairment was recognised in the income statement.

Disclosures

34. The objective of IAS 32 is to require entities to provide disclosures in their financial statements that enable users to evaluate:

    - the significance of financial instruments for the entity's financial position and performance, and

- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks.

Annex 4: Lease accounting entries

Operating leases

6. The minimum lease payments of operating leases are recognised on a straight line basis over the life of the lease. Contingent rentals are recognised as and when incurred but IAS17 requires the amount of contingent rental recognised to be disclosed each year.

7. Where the NHS body is the lessee, all of the rental expense (normal plus contingent) is recognised in Note 8 Operating Expenses under the relevant heading. The disclosure of the split between ‘normal’ and contingent rent is disclosed in Note 9.1.

8. Where the entity is the lessor, all of the rental income (normal plus contingent) should be recognised in Note 6 Other Operating Revenue under the ‘Rental revenue’ line. The disclosure of the split between 'normal' and contingent' is picked up by Note 9.2.

Finance leases

9. Since finance leases are akin to borrowing, the minimum lease payments are split between the finance cost and repayment of the borrowing. Where the entity acts as lessee, the finance cost will be recorded as a finance expense in Note 16, and where the entity is lessor it will be recorded as finance income in Note 14.

10. The complication is around contingent rental. As with operating leases, contingent rental is only recorded as income or expense when it is actually incurred. IAS17 is silent on where this is recorded. Under this manual, it should be recognised in Note 6 Other Operating Revenue – Rental revenue or Note 8 Operating Expense against the relevant line, as appropriate. The disclosure of the contingent rental is given in Notes 30 and 31.

11. There is a special case for particular PFI schemes where the annual unitary payment is increased by the whole of RPI each year (rather than a proportion) and therefore some of this RPI uplift is attributable to the finance lease element recognised. The substance of this contingent rental is a finance cost due to the way that the PFI operator sculpts its finance cost in the model. It is therefore appropriate to disclose this specific contingent rental within Note 16 Finance Costs.

Annex 5: Consultancy

The provision to management of objective advice and assistance relating to strategy, structure, management or operations of an organisation in pursuit of its purposes and objectives. Such assistance will be provided outside the 'business as usual' (BAU) environment when in-house skills are not available and will be of no essential consequence and time-limited. Services may include the identification of options with recommendations and/or assistance with (but not delivery of) the implementation of solutions. The consultancy category will include areas such as:

- Strategy: The provision of objective advice and assistance relating to corporate strategies, appraising business structures, value for money reviews, business performance measurement, management services, product design and process and production management.

- Finance: The provision of objective advice and assistance relating to corporate financing structures, accountancy, control mechanisms and systems. This does not include "auditor's remuneration", this is reported separately. It will include:

    - Strategic Finance: Providing specialist services and support in the form of financial, legal, insurance advice to develop a Public Private partnership/Private Finance Initiative deal for procurement requirement.

    - Operational Finance: Procurement advice on risk management and internal control systems including audit arrangements. Advice on the commercial viability of grant recipients, suppliers and partners; solvency checks

- Organisation and Change Management: Provision to management of objective advice and assistance relating to the strategy, structure management and operations of an organisation in pursuit of its purposes and objectives. Long range planning, re-organisation of structure, rationalisation of services, general business appraisal of organisation.

- IT/IS: The provision of objective advice and assistance relating to IT/IS systems and concepts, including strategic studies and development of specific projects. Defining information needs, computer feasibility studies and making computer hardware evaluations. Including consultancy related to e-business.

- Property and Construction: The provision of specialist advice relating to the design, planning and construction, tenure, holding and disposal strategies. This can also include the advice and services provided by surveyors and architects.

- Procurement: the provision of objective advice and assistance when establishing procurement strategies.

- Legal Services: The provision of external specialist legal advice and opinion in connection with the policy formulation and strategy development particularly on commercial and contractual matters.

- Marketing and Communication: The provision of objective advice, assistance and support in the development of publicising and the promotion of the DoH’s Business Support programmes, including advice on design, programme branding, media handling and advertising.

- Human Resource, training and education: The provision of objective advice and assistance in the formulation of recruitment, retention, manpower planning and HR strategies and advice and assistance relating to the development of training and education strategies.

- Programme and Project Management: The provision of advice relating to ongoing programmes and one-off projects. Support in assessing, managing and or mitigating the potential risks involved in a specific initiative; work to ensure expected benefits of a project are realised.

- Technical: The provision of applied technical knowledge. To aid understanding, this can be sub-divided into:

  - Technical Studies: Research based activity including studies, prototyping and technical demonstrators.

  - Project Support: Project based activities including technical consultancy, concept, development and in-service support activities.

  - Engineering Support: Task based support including Post Design Services, repair, calibration, analysis testing and integration.

Annex 6 - Treasury Discount Rates

4.228 The "Green Book" is Treasury's investment appraisal manual, and contains guidance on the use of discounting for option appraisal purposes only.

4.229 Treasury has set standard discount rates applicable for 31 March 2013, as detailed below. These rates will determine the unwinding-of-provisions charges for 2013-14. It is expected that Treasury will issues revised rates applicable at 31 March 2014 towards the end of the 2013 calendar year.

4.230 The following PES papers were published on 30 November 2012:

- *PES(2012)15 – Discount Rates for General Provisions: Announcement of Rates, and*
- PES(2012)16 – New Discount Rate for Valuing Post Employment Benefits

Copies of these Papers have been posted to the "finman" website ("FAQ" 4th February 2013), and their key points are summarised below.

General Provisions

4.231 Treasury now gives rates for short, medium and long-term general provisions. These are defined:

- ***Short-term rate:*** A real discount rate to be applied to the cash flows of general provisions in a time boundary of between 0 and up to and including 5 years from the Statement of Financial Position date.
- ***Medium-term rate:*** A real discount rate to be applied to the cash flows of general provisions in a time boundary of after 5 and up to and including 10 years from the Statement of Financial Position date.
- ***Long-term rate:*** A real discount rate to be applied to the cash flows of general provisions in a time boundary exceeding 10 years from the Statement of Financial Position date.

The rates to be applied on 31 March are:

Timing of Cash Flows	Real Rate
0 to 5 years inclusive	Minus 1.80%
6 to 10 years inclusive	Minus 1.00%

Over 10 years	Plus 2.20%

4.232 Note: it is the timing of the cash flow that governs the discount rate used – the PES papers make no reference to setting discount rates according to the overall term of the arrangement. Thus, to arrive at the SOFP balance for a provision with expected cashflows occurring in each year for 20 years, each of the three rates will be applied in arriving at the final balance. It would not be correct to discount cashflows at 2.20% in the first 10 years simply because the liability is not expected to be wholly discharged until year 20.

Post Employment Benefits Provisions

4.233 The real discount rate applicable on 31 March 2013 is 2.35% (the previous year's rate was 2.80%)

4.234 The rate is applicable for all provisions arising from continuing obligations arising from previous employment service.

Accounting – Both Categories of Discount Rate

4.235 Any change in the 31 March 2014 discount rates will result in an increase or decrease in the carrying amount of the provision at 31 March and this will be matched by a corresponding charge/credit to the current year SOCNE or SOCI.

4.236 The new rates will impact on unwinding charges or credits in 2013-14.

Annex 7 - Valuation Issues

4.237 In considering how best to apply the valuation requirements of IAS16 to ensure that the SOFP gives a true and fair view of the value of the assets at the reporting period, entities should consider the following guidance (together with Treasury guidance – see 4.140 above).

4.238 For ‘in use’ non-specialised property assets fair value should be interpreted as market value for existing use. In the RICS Red Book, this is defined as ‘market value on the assumption that property is sold as part of the continuing enterprise in occupation’.

Modern Equivalent Asset (MEA) valuations

4.239 For specialised properties (ie those for which no active market exists), depreciated replacement cost is considered to be a satisfactory approximation of fair value. Within that methodology, the MEA concept is applied: the “replacement cost” is based on the cost of a modern replacement asset that has the same productive capacity as the property being valued.

Recognition and measurement

4.240 Entities should value their property using the most appropriate valuation methodology. Such methods might include:

- a quinquennial valuation supplemented by annual indexation and no interim professional valuation
- annual valuations, or
- a rolling programme of valuations of properties (whether specialised or non-specialised).

4.241 It is for valuers, using the Royal Institution of Chartered Surveyors; (RICS) ‘Red Book’ (RICS Appraisal and Valuation Standards), and following discussions with the entity, to determine the most appropriate methodology for obtaining a fair value. Where a valuer, following discussion with the entity, determined that depreciated replacement cost (DRC) is the most appropriate, entities and their valuers should have regard to the RICS Valuation Information Paper No. 10. VIP extracts. Other detailed valuation guidance is available on the FReM dedicated website: http://www.hm-treasury.gov.uk/d/guidance_on_asset_valuation.pdf

4.242 Where DRC is used as the valuation methodology, entities should normally value a modern equivalent asset in line with the Red Book. Any plans to value a reproduction of the existing asset instead should be discussed with the Department to determine whether such an approach is appropriate to the entity’s circumstances.

4.243 Where DRC is used as the valuation methodology, entities should use the 'instant build' approach;

4.244 Where DRC is used as the valuation methodology, the choice of an alternative site will normally hinge on the policy in respect of the locational requirements of the service that is being provided. Where the practical requirements of healthcare delivery, for example, require that a hospital is located within the same geographical area it now occupies, the valuation should be based on that site and not an alternative. A valuation on an alternative site basis may however be appropriate where it is clear that the alternative would offer advantages in serving the target population.

4.245 The cost of enhancements to existing assets (such as building of a new wing within an existing hospital) should be capitalised during the construction phase as an asset under construction. At the first valuation after the asset is brought into use, any write down of cost should be treated as an impairment and charged to the revenue account.

4.246 For 'in use' non-specialised property assets fair value should be interpreted as market value for existing use. In the RICS Red Book, this is defined as 'market value on the assumption that property is sold as part of the continuing enterprise in occupation' (FReM 6.2.5).

Disclosure

4.247 Entities should:

- disclose in the accounting policies note the fact that assets are carried at fair value. Entities should also provide information about the approach to valuing their estates, including a statement (where applicable) that alternative sites have been used in DRC valuations;
- disclose in the notes on tangible fixed assets: the date of the last valuations of those property assets that are subject to revaluation, and the names and qualifications of the valuer; and
- discuss in the Management Commentary, where they hold extensive estates: their estate management strategy; the indicative alternative use values provided by the valuer as part of the routine valuation work, and what those alternative use values mean in terms of their estate management policy.

Equipment

4.248 The accounting policy remains that equipment is carried at current cost. However, where non-property assets are short-lived, or are of low value (or both) it is acceptable for such assets to be carried at depreciated historic cost as this will be a reasonable proxy for current cost. The main consideration is that no material difference should arise in the financial statements as a consequence of the use of depreciated historic cost in preference to other possible measures of current cost, including indexation.

4.249 The following disclosures must be given: in the accounting policies note, that the assets are carried at fair value, with depreciated historical cost used as a proxy for fair value for named classes of assets, if appropriate, with the reasons why. Information must also be given about any significant estimation techniques, if applicable.

Annex 8 - IFRIC 12 further information

IFRIC 12 Service Concession Arrangements

1. Also relevant:

    - IAS17 Leases
    - SIC15 Operating Leases – Incentives
    - SIC27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease
    - IFRIC4 Determining whether an Arrangement contains a Lease
    - SIC29 Service Concession Arrangements: Disclosures

2. This guidance outlines the key considerations for NHS bodies that enter into PPP or PFI arrangements that meet the IFRIC12 definition of “service concession arrangements”.

Identification of “service concession arrangements”

3. IFRIC12 is applicable only where:

    - the infrastructure (i.e. the property) is used to deliver public services; and

    - the public sector grantor (the NHS body) controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and

    - the public sector grantor (the NHS body) controls the residual interest in the asset at the end of the term of the arrangement.

Summary of required accounting – on-SOFP under IFRIC12

4. Properties that are on-SOFP under IFRIC12 should be included in the PFI disclosures. The property will be recorded in the SOFP, together with an associated liability. The unitary payment stream is separated into: the interest element; the capital creditor repayment element; and the service element.

5. While the required accounting mirrors that for a finance lease, and techniques for apportioning the payments as above may also be the same as used for finance leases, the arrangement is not reported as a finance lease. IFRS make a distinction between finance lease arrangements and IFRIC 12 arrangements.

6. The arrangement should instead be included in the PFI disclosures, as the FReM places both PFI and IFRIC12 arrangements within the category of Public-Private Partnerships.

Summary of required accounting – on-SOFP under IFRIC4

7. Properties that are on-SOFP by virtue of IFRIC4 (ie where a IFRIC12 service concession does not exist) should be included within the normal leasing disclosure notes.

8. Where the following conditions apply:

    - The fulfilment of the arrangement is dependent on the use of a specific asset; and.
    - The arrangement conveys the right to use the asset; and
    - IAS 17 tests require the recognition of a finance lease,

    the NHS body will be required to account for the transaction as a finance lease. In such cases, disclosure is within the finance lease notes to the SOFP in accordance with IAS17.

Sale of asset that subsequently requires recognition on the seller's SOFP

9. The IFRICs do not specifically address this situation, but the arrangement is similar to a "sale and leaseback" arrangement which is dealt with by IAS17 *Leases*. This guidance therefore follows the principles set out in IAS17.

10. The transaction is considered as a financing transaction: the seller or lessee never disposes of the risks and rewards of ownership of the asset and so should not recognise a profit or loss on the sale. Any apparent profit (i.e. the difference between carrying amount and sale proceeds) should be deferred and amortised over the lease term. (IAS17, para 59).

New transactions funded by "s28" and "s64" grants

11. Where a grant for the purchase of a NHS asset is made in the current year, and the arrangement results in the retention of the asset under IFRIC 12 or IFRIC 4 it is important to identify the substance of the transaction.

12. Cash is granted by the NHS body to the purchaser. The purchaser then buys the asset from the NHS body, but the NHS body retains the asset on its SOFP by virtue of IFRIC12 or IFRIC4. A circular flow of cash has taken place: from the NHS to the purchaser and then back to the NHS; and the asset has remained on the NHS body's SOFP. Assuming no "profit" or "loss" has been made (in which case the IAS17 sale and leaseback principles outlined above come into play) the economic and accounting reality is that no substantive transactions have taken place. At the completion of the

series of transactions there should be no net impact either on the revenue account or SOFP.

13. This means that there will be no expense recognised in the NHS body's SOCNE as the circular flow of cash neither generates expenditure nor a capital receipt. In this situation there is therefore no need to record the issue of a capital grant and there is no need for the Department to effect a budgetary transfer from capital to revenue.

14. While no accounting entries should therefore be made, a narrative disclosure of the nature of the transaction should be provided in the accounts.

Annex 9 - Transfer by Absorption

1. IFRS 3 Business Combinations does not include intra-public sector combinations within its scope.

2. Amendments to the FReM were effective from 2012-13.

3. The FReM adaptation of IFRS 3 is outlined in Chapter 3: the following paragraphs offer some practical guidance to NHS bodies.

Accounting entries

4. Prior-period figures must not be restated on a transfer of functions, assets or liabilities between public sector bodies under absorption accounting.

5. Each party in a transfer will account for transactions in the period in which they fell. The "successor" does not account for any transactions carried out by the "transferor" prior to the date of transfer.

6. Where assets and liabilities transfer as part of a transfer of functions, the date of transfer will normally coincide with the date that responsibilities passed from one body to the other. Normal IFRS asset recognition criteria will apply: clearly if the transferor of functions retains control of the related assets, there may be nothing to record in this respect.

7. Where a transfer takes place in-year, or where an entity closes down mid-year, both parties record the disposal and receipt of assets and liabilities as in-year transactions. In the event of a mid-year closedown, the closing body will prepare closing SOFPs for the year showing zero entries.

8. For closure on 31 March xx, the closing body will present a full SOFP: this will include all the assets and liabilities that transfer to either a new entity or an existing successor on 1 April xx.

9. The successor body excludes the transferred assets and liabilities from its closing 31 March xx and its opening 1 April xx SOFP. It will record the receipt of the assets and liabilities as an in-year movement at the start of the new period.

10. Transfers of assets and liabilities are balanced by corresponding entries to the SOCNE/SOCI as gains/losses that impact on in-year performance, but identified separately from operating costs.

11. As reserves are not transferred, it will be necessary for entities to make manual transfers between the General Fund/Retained Earnings and the Revaluation Reserve (to preserve the Revaluation Reserve value associated with a transferred asset). NHS bodies will therefore need to provide information on the associated Revaluation reserve values, as well as the carrying amount value, to the successor body.

12. Transfers of assets and liabilities must be recorded in detail, listing counter-parties, in both the Accounts and Summarisation Schedules. Accounts will need to contain meaningful narrative disclosures about the transfer event. These disclosures might fall under “events after the reporting period” if the transfers are a consequence of the dissolution of a NHS body.

Annex 10 - NHS Transition: Modified Absorption Accounting for 1 April 2013 Transfers

Accounting for assets transferred from closed NHS bodies

1 For 2013-14, the default arrangement for handling routine intra-NHS asset transfers and intra-Group reconstructions remains *absorption accounting* (see above, Annex 9). Treasury has however agreed a departure from the FReM in accounting for the transfer of assets, liabilities and functions in respect of the closure of: SHAs; PCTs; and certain SplHAs on 1 April 2013. For the sake of simplicity, these are referred to as "closed" entities below.

2 Where a NHS body receives assets or liabilities on 1 April 2013, and those assets or liabilities were brought to account at 31 March 2013 in the SOFP of a body that was dissolved on 1 April 2013, it shall account for the transaction through reserves using *modified absorption accounting*.

3 For all other asset/liability transfers between NHS bodies, *absorption accounting* must be applied as in 2012-13. In summary, *modified absorption accounting* is appropriate only where two conditions are met:

- The transfer is from a SHA, PCT or SplHA that dissolved at the end of 2012-13; and,
- The asset or liabilities involved were included in the closing balance sheet of the closed entity.

Background

4 Those entities that closed on 1 April 2013 prepared full accounts on a going concern basis in respect of 2012-13 and reported a full set of SOFP balances at 31 March 2013. They will not however produce any financial statements in respect of 2013-14.

5 Most of the successor bodies to the closed entities either did not exist at 31 March 2013 or had not assumed their full functions at that date (CCGs, NHS Property Services, PHE). None of the successor bodies has a counter party in 2013-14 against which to record transition transactions.

6 It is necessary, for the Group consolidation, that aggregate 1 April 2013 balances are identical to the aggregate position on the previous day.

7 A further consideration is that *absorption accounting* recognises the receipt of eg net assets by a successor as dr asset, cr current year income, thereby generating an in-year surplus or over-performance position in the successor on the date of transfer. To balance performance nationally, it would be necessary for the core Department to recognise an in-year loss to the same value.

8 The Department considers that it would be misleading and distorting to allow the reconfiguration of the NHS to generate reported performance gains on losses on the first day of the accounting period. For successor bodies, and CCGs in particular, this arrangement would also fail to convey the reality of having new entities set up under Statute and vested with certain assets by Secretary of State.

Accounting for 1 April 2013 transition receipts from closed bodies

9 The Department, with Treasury approval, has therefore set the following accounting requirements:

- Successor bodies must balance receipts of net assets/liabilities by means of credits/debits to reserves, thereby avoiding distorting performance entries;
- Transferred assets/liabilities are shown as 2013-14 adjustments to opening balances. This ensures that for each successor, whether a new entity or existing organisation, closing and opening balances are identical. The adjustment to opening balances in respect of transfers from closed entities will be clearly identified within accounts and will be accompanied by full and detailed disclosures to explain the source and circumstances of the asset/liability receipts.
- This accounting policy is not applied retrospectively. No restatement of 2012-13 figures is required in respect of NHS transition closures except by means of the formal 1 April 2013 adjustment to opening balances.
- Revaluation reserves are preserved. Following the practice adopted in 2012-13, those bodies that receive net assets that are funded in part by revaluation reserves will preserve those reserves by means of a *second* transaction subsequent to the initial recognition of the asset transfer itself. This transaction will transfer an amount from the General Fund (or retained earnings reserve) to the credit of the revaluation reserve, such that the asset's historic revaluation reserve is recognised by the successor. While this achieves the same effect as "transferring" the reserve itself, this is not strictly the case. The transaction is dr Gen Fund, cr reval reserve and ***not*** dr asset, cr reval reserve. This revaluation reserve transaction should take place in all cases in 2013-14 (ie in both transition-related closures and under "normal" absorption accounting).

10 The formats of the 2013-14 accounts and consolidation schedules have not been finalised but they will show, for the SOFP and each Note to the SOFP:

Opening balance *(will equal 12-13 closing balance)*	100
Transfer of asset (liability) from closed NHS body - received	20
Balance at 1 April following adjustment	120
In-year movements etc etc	30
Transfer of asset (liability) under absorption accounting - received	(25)
Closing balance	125

11 For bodies that became operational on 1 April 2013 (eg CCGs), the brought forward balances will, strictly speaking, be zero. The receipt of transferred assets and liabilities will be clearly identified and result in an adjusted 1 April 2013 balance being shown.

12 In the example above, the net asset receipt of 20 will be further analysed in accounts and summarisation schedules to detail the type of asset or liability transferred, and the identities of the source bodies. This meets Treasury disclosure requirements, and will permit a national reconciliation of closing balance sheets to (adjusted) 1 April 2013 balances. It is of course essential that both senders and receivers of asset and liabilities agree values and categories.

13 The reserves transactions will be reflected in accounts and summarisation schedules as follows:

dr asset	20
cr General Fund*	20

and *subsequently* (if we assume the asset carried a revaluation balance of 5 in the closed body):

dr General Fund*	5
cr revaluation reserve	5

* for Trusts & FTs, retained earnings.

Other in-year transfers of assets and liabilities

14 Where the conditions at 3 above are not met, NHS bodies' accounting defaults to absorption accounting as set out in the FReM, FT ARM and above.

15 The accounts and summarisation schedules will need to distinguish between 1 April 2013 transactions outlined above and other in-year transfers. This second category will, as in 2012-13, be dealt with through the in-year revenue account. The SOFP and Notes to the SOFP will therefore include lines in which to report such transfers, and these entries will be detailed by category and counter-party and reconciled to the gain or loss recognised in the SOCNE/SOCI for the period.

16 In the example at 10 above, the entity will, in addition to the 1 April 2013 transaction, also report a ***transfer in*** of liabilities (25), resulting in a realised loss, recognised in the SOCNE/SOCI.

Asset valuation

17 Assets and liabilities transferring within the DH Group, whether under transition or other functions transfer arrangements, transfer at their net book value in the transferor's SOFP. Revaluation is not required simply because the asset is transferring: absorption accounting

does not require revaluation.

18 However, either the transferring body or the recipient may have cause to revalue assets as in-year transactions before or after the date of transfer (eg within the routine valuation cycle, or where a current reduction in service potential has been identified). Any such revaluation must be accounted for as a distinct and separate exercise from the transfer itself to ensure that asset values are identical in each set of accounts.

19 The normal considerations on impairment apply – where a review of an asset's service potential is required (eg because it has already been taken out of service) it may be necessary to recognise an impairment in the normal way. Where an asset is however still operational at the point of transfer, and the transferor has no control over its future use, the transferor should not make any assumptions about the future use of the asset. The successor body (including NHS PS) will carry out an impairment review when and if it considers it necessary to do so. In other words, the fact that an asset is being transferred to another part of the DH Group is not in itself a sufficient reason to impair it while it remains in use by the transferor.