



Financial Reporting Advisory Board Paper

NHS Foundation Trust Annual Reporting Manual 2014/15

Issue:	This paper presents the draft 2014/15 NHS Foundation Trust Annual Reporting Manual for FRAB approval in advance of Monitor consulting on the Manual.
Impact on guidance:	No impact on FReM. The paper is concerned with the Annual Reporting Manual for NHS foundation trusts
IAS/IFRS adaptation?	n/a – updated in line with the HM Treasury FReM
Impact on WGA?	n/a – updated in line with the HM Treasury FReM
IPSAS compliant?	n/a – updated in line with the HM Treasury FReM
Interpretation for the public sector context?	n/a
Impact on budgetary regime?	n/a
Alignment with National Accounts	n/a
Impact on Estimates?	n/a
Recommendation:	FRAB is asked to approve the updates to the FT ARM 2014/15 and the continued divergences from the HM Treasury FReM.
Timing:	2014/15

DETAIL

Background

1. As at 1 March 2014 there are 147 NHS foundation trusts authorised by Monitor.
2. Under Schedule 7 paragraphs 24 and 25 of the 2006 Act NHS foundation trusts are required to comply with any directions given by Monitor with the approval of the Secretary of State as to the methods and principles according to which the accounts are to be prepared; and the information to be given in the accounts.
3. In determining the form and content of the annual accounts, Monitor, as the regulator, must aim to ensure that the accounts present a true and fair view (paragraph 25(3), Schedule 7). Monitor is required to obtain the Secretary of State's approval for the Accounts Direction.
4. HM Treasury has previously accepted that there are fundamental differences between NHS Trusts and Government Departments rendering some requirements in the Government's Financial Reporting Manual (FReM) irrelevant to NHS Trusts. This is also the case for NHS foundation trusts.
5. As was the case in previous periods, Monitor is required to agree any proposed divergences from the FReM with FRAB prior to the release of its accounting guidance to NHS foundation trusts. The detailed list of proposed divergences is included at annex B. **There are no new proposed divergences from the FReM.**

Background: Changes made to 2013/14 FT ARM made in March 2014

6. The 2013/14 FT ARM was last presented to FRAB in May 2013 after having been published in draft. Following receipt by Monitor of the accounts direction for the consolidated NHS foundation trust accounts from the Department of Health, the 'final' FT ARM for 2013/14 was published in December 2013.
7. In March 2014 we updated the 2013/14 FT ARM for:
 - changes to the remuneration report as adopted by the updated 2013/14 FReM;
 - adoption of the strategic report and directors' report as contained in the updated 2013/14 FReM;
 - disclosures including off-payroll arrangements confirmed by the annual reporting PES paper in March 2014; and
 - Monitor's updated NHS Foundation Trust Code of Governance (specific additional requirements set by Monitor for NHS foundation trusts).
8. Monitor provided the updated 2013/14 FT ARM to HM Treasury who confirmed that as it was only adopting late HM Treasury changes to the FReM which had been approved by the Board, the 2013/14 ARM did not also need to go back to the Board. As these were changes made in 2013/14, the adoption of the strategic report and the single total figure table for the remuneration report are not shown as changes made in 2014/15 in this paper.

Changes proposed to 2014/15 FT ARM

9. The main changes made to the 2014/15 FT ARM are as follows:

- adopting new group accounting standards (IFRS 10, IFRS 11 and IFRS 12) in line with the FReM; and
- further changes to the remuneration report are proposed which go beyond the FReM requirements and adopt more of the Companies Act Regulations. Monitor's FT ARM has previously adopted Companies Act requirements relating to the annual report that go beyond the FReM and we deferred making changes to these areas until 2014/15 in order to limit the late 2013/14 changes.

A fuller list of the proposed changes is provided in annex A.

10. The full text of the 2014/15 FT ARM in mark up form (compared to the final 2013/14 FT ARM) is provided separately as annex C.

Next steps

11. As NHS foundation trusts will be preparing their year end accounts and working through the audit process in April and May, they have told us that they would prefer to receive the draft *FT ARM* for consultation at the end of May. We therefore plan to consult on the 2014/15 FT ARM from the end of May.

12. Monitor is conscious that the FT ARM is a separate document from the HM Treasury FReM. We have also discussed with the Department of Health the possibility of, from 2015/16, the NHS foundation trust requirements being an annex to a DH group manual. We will obtain NHS foundation trusts' views on how they would like their reporting manual to be presented in the future when we consult on the 2014/15 FT ARM.

13. FRAB is advised that when we consult on the FT ARM we may make minor changes to language and drafting to improve clarity for the reader, but there will no changes of substance compared to the draft presented here.

Impact on disclosures in resource and other accounts

14. The annual report and accounts for NHS foundation trusts will be affected as listed in annex A.

IAS/IFRS compliance

15. The FT ARM is compliant with IFRS as adopted by the FReM. The applicability of standards is listed in chapter 2.

Summary and recommendation

16. FRAB is asked to approve the updates to the FT ARM 2014/15 and the continued divergences from the HM Treasury FReM.

Monitor
3 APRIL 2014

Annex A: List of changes made in 2014/15 FT ARM

Annex B: List of divergences from the FReM 2014/15

Annex C: Full text of 2014/15 FT ARM in track changes

ANNEX A

Changes made in 2014/15 FT ARM

	Area of change	Reason for change	Reference in <i>FT ARM</i> 2014/15
1	New group accounting standards (IFRS 10, IFRS 11 and IFRS 12) have been adopted.	Change in IFRS adopted by HMT FReM	Paragraphs 3.24 to 3.41
2	The structure of the remuneration report has been amended to adopt further elements of the Companies Act Regulations 2013 changes.	Monitor change to adopt best practice from corporate sector	Paragraphs 7.34 to 7.40
3	A statement on how the NHS foundation trust has applied the principles of the NHS Foundation Trust Code of Governance has been added to the annual report. The inclusion of this sentence in the annual report from 2014/15 is likely to impact upon the format of the trust's external audit opinion through the changes to International Standard on Auditing (ISA) 700.	Monitor change to adopt best practice from corporate sector	Paragraph 7.69
4	Additional information relating to overseas visitors income has been added for disclosure within the notes to the accounts.	Additional data requested by the Department of Health	Paragraph 4.21
5	The FReM adaptation of IAS 1 for defining going concern has been made clearer in the <i>FT ARM</i> . This is not a change to how going concern is defined for NHS foundation trusts.	Improvement to the FT ARM. No change in substance.	Paragraphs 3.20 and 7.18
6	A statement on the NHS foundation trust's policy on using off-payroll arrangements has been added to the remuneration report disclosures.	Monitor change to improve transparency of reporting	Paragraph 7.44
7	References to modified absorption accounting have been removed as this only applied within the NHS in 2013/14 for the 1 April 2013 reorganisation of the NHS	Removing temporary 2013/14 divergence from FReM	Paragraph 3.46 onwards and PDC dividend calculation in chapter 4
8	Wording on impairments arising from a clear consumption of economic benefits or of service potential has been slightly modified to reflect changes to the FReM	Change in FReM	Template accounting policies in chapter 3 and paragraph 5.25.

ANNEX B

List of divergences from 2014/15 HM Treasury FReM (unchanged from 2013/14)

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

Government departments	NHS foundation trusts
On-vote	Off-vote
Appropriations-in-Aid (A-in-A) apply	A-in-A do not apply
Have revenue and capital resource limits	NHS foundation trusts do not have revenue or capital resource limits.
Have cash limits	NHS foundation trusts do not have cash limits
Have a Statement of Comprehensive Net Expenditure	Have a Statement of Comprehensive Income
Have a General Fund	Have Public Dividend Capital and pay dividends
Have statement of parliamentary supply and associated notes	Do not have statement of parliamentary supply nor associated notes
Ministers directly involved	Ministers not directly involved
Departments do not present their reports and accounts at public meetings	The annual report and financial statements of individual NHS foundation trusts are laid before Parliament and presented at a public meeting

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

<i>FReM</i> requirement	NHS foundation trust accounting
Where the information on directors' remuneration required by sections 412 and 413 of the Companies Act 2006 is readily ascertainable from the Directors' remuneration report, it need not be disclosed in a note to the accounts (Paragraph 5.4.4(g)). The [IAS 24 – Related Party Disclosures] requirement to disclose the compensation paid to management... will be satisfied by the disclosures made in the notes to the accounts and in the Remuneration Report (Table 6.1: IAS 24).	Information on directors' remuneration should be disclosed in a note to the accounts, as required by the CA 2006 and IAS 24, separate from the directors' remuneration report.
Financial instruments: The <i>FReM</i> requires that where future cash flows are discounted to measure fair value, entities should use the higher of the rate intrinsic to the financial instrument and the real financial instrument discount rate set by HM Treasury as applied to the flows expressed in current prices (Table 6.1: IAS 39).	Where future cash flows are discounted to measure fair value, NHS foundation trusts should use a market rate for similar instruments and similar entities (adjusted for credit risk where appropriate).