



Making the health sector  
work for patients

**Consultation on  
changes to the  
NHS foundation  
trust annual  
reporting  
manual 2015/16**



## About Monitor

As the sector regulator for health services in England, our job is to make the health sector work better for patients. As well as making sure that independent NHS foundation trusts are well led so that they can deliver quality care on a sustainable basis, we make sure: essential services are maintained if a provider gets into serious difficulties; the NHS payment system promotes quality and efficiency; and patients do not lose out through restrictions on their rights to make choices, through poor purchasing on their behalf, or through inappropriate anti-competitive behaviour by providers or commissioners.

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## 1. Background

All NHS foundation trusts must publish annual reports and accounts. Clear and transparent reporting helps a trust – as well as its governors, members and patients – understand and scrutinise the year's operations and outcomes.

As the regulator we direct the form in which the annual report and accounts should be prepared, the information which should be included and the methods and principles that should be followed in their preparation. In determining the form and content of the accounts, we must, by statute, aim to ensure the accounts present a true and fair view.

In order to achieve this, we issue the 'NHS foundation trust annual reporting manual' (FT ARM) every year. This contains the requirements NHS foundation trusts need to follow when preparing their annual reports and accounts.

The FT ARM requires NHS foundation trusts to follow the requirements of International Financial Reporting Standards (IFRS) as adopted by the European Union and the HM Treasury Financial Reporting Manual (FReM). Therefore, the FT ARM only includes detailed accounting guidance where NHS foundation trusts are:

- required to depart from IFRS or the HMT FReM
- required to make specific disclosures in addition to IFRS and the HMT FReM or
- faced with particular circumstances that IFRS or the HMT FReM do not address.

Updates to the FT ARM follow the same principle and, on that basis, are required where IFRS or the HMT FReM have changed or when NHS foundation trusts are required to make specific extra disclosures.

The submission deadlines for 2015/16 have not yet been set. These dates are highlighted in yellow in the draft FT ARM and will be revised when the FT ARM is published in its final form.

## 2. This consultation

This consultation relates to the FT ARM for 2015/16. The consultation period has been set for four weeks. The 2015/16 FT ARM will be republished once we have received and reviewed consultation responses. It is subject to approval by the Department of Health.

This document summarises the principal changes being made in the draft FT ARM 2015/16 which is available [here](#)<sup>1</sup> on our website. All substantive changes are shown in bold italic font.

Please send in your responses by **5pm on Friday 31 July**.

### 3. Principal changes proposed in 2015/16

#### A. IFRS 13 – Fair value measurement

International Financial Reporting Standard (IFRS) 13 defines ‘fair value’ and is intended to replace or supplement most other references to fair value in existing standards. IFRS 13 has been adopted without adaptation into the HMT FReM, but in practice its impact is limited by adaptations to other standards which restrict the scenarios where fair value accounting is applied, particularly in relation to non-current assets.

In continuing with the FReM’s adaptation of International Accounting Standard (IAS) 16, assets which are held for their service potential (i.e. operational assets) and are in use should be measured at current value in existing use. For non-specialised assets current value in existing use should be interpreted as market value for existing use. For specialised assets current value in existing use should be interpreted as the present value of the asset’s remaining service potential. These valuation approaches are therefore unchanged from the bases previously used.

The FReM introduces surplus assets as a new concept. Assets that were most recently held for their service potential but are surplus should continue to be valued at current value in existing use if there are restrictions on the trust or the asset which would prevent access to the market at the reporting date. If the trust could access the market then the surplus asset should be valued at fair value using IFRS 13.

Assets that are not held for their service potential should be valued in accordance with IFRS 5 or IAS 40 depending on whether the asset is actively held for sale. Where such assets are surplus and do not fall within the scope of IFRS 5 or IAS 40, they should be valued at fair value under IFRS 13.

These changes will have some impact on reporting for NHS foundation trusts. For example, in a scenario where a specialised asset is worth less on the open market than its current carrying value, the carrying value would previously have fallen when categorised as held for sale. Under the new approach, the asset is measured at fair value when it becomes surplus (if there are no restrictions on its sale), so a lower value may be recognised earlier. Alternatively, in a scenario where a non-specialised asset is worth more on the open market than its current valuation on the basis of

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<sup>1</sup> <https://www.gov.uk/government/consultations/nhs-foundation-trust-annual-reporting-manual-proposed-amendments-for-201516>

current value in existing use, when the asset is valued at fair value upon being marked as surplus its carrying value will increase, with this gain being recognised earlier than would previously have been the case.

In responding to this consultation we would be interested in any comments on how significant an impact you think the new concept of surplus assets might have on foundation trusts' accounts.

We have also made other minor changes to this section of the FT ARM with the intention of improving clarity and in some places harmonising the language used with the Department of Health's Manual for Accounts.

Refer to paragraphs 5.2 to 5.33 and the template accounting policies in chapter 3 of the draft FT ARM.

#### **Consultation question 1:**

**Do you have any comments on our proposal for implementing IFRS 13 as adopted by the HMT FReM for NHS foundation trusts?**

### **B. HM Treasury's simplification and streamlining project**

The results of HM Treasury's project to 'streamline and simplify' public sector bodies' annual reports and accounts have been reflected in the FReM for 2015/16. The changes are primarily aimed at central government departments, but there is a focus on ensuring the annual report and accounts are relevant to the reader of the accounts, which is a principle Monitor applies to the reporting requirements for foundation trusts. The overall structure of a foundation trust's annual report follows the requirements of the FReM, so this is affected by the FReM changes. The Department of Health is also adopting the new format for the annual reports for other NHS bodies.

The overall structure of the annual report and accounts has been largely adopted from the FReM in order to achieve comparability in reporting between foundation trusts and NHS trusts and other NHS bodies. The FReM requires the annual report and accounts to have three sections. This has been adapted by Monitor as explained below. The FReM requires sections as follows:

- the performance report – providing information on the performance of the entity and the principal risks it faces
- The accountability report, comprising three sections:
  - The corporate governance report, which itself has three sections:
    - directors' report – details about the directors, and a number of other points of accountability
    - statement of accounting officer's responsibilities

- (annual) governance statement
  - Remuneration and staff report
  - Parliamentary accountability and audit report – includes notes required by Parliament (many not applicable to foundation trusts) and the auditor’s report.
- the financial statements.

In applying this to foundation trusts, Monitor has made the following adaptations:

- We consider that the term ‘corporate governance report’ may be unhelpful for foundation trusts, given that foundation trusts include an annual governance statement in their annual report, and already have a ‘corporate governance statement’ as part of the forward look required by Monitor’s *Risk Assessment Framework*. We have simplified the structure by not using the term; instead we include its three subsections directly under the heading of the accountability report.
- As much of the Parliamentary accountability section does not apply to foundation trusts, the elements of it which are relevant have been included in the directors’ report, rather than include a very short ‘Parliamentary accountability’ section. Therefore the external auditor report continues to sit separately.
- The quality report for foundation trusts is retained as part of the annual report, as a distinct section alongside the performance report and accountability report.
- Other elements previously required in an FT annual report – including disclosures required by the FT Code of Governance, and disclosure of Monitor’s regulatory ratings – have been retained and incorporated as subsections within the accountability report.
- Monitor’s required disclosures on quality governance have been retained as part of the directors’ report.
- As the remuneration report has been through a number of changes in recent years and is not affected by this set of changes, we are implementing a separate ‘remuneration report’ and ‘staff report’, rather than the ‘remuneration and staff report’ envisaged by the FReM.

The resulting structure of foundation trusts’ annual reports and accounts is set out in paragraph 1.11 of the draft FT ARM:

- the performance report comprising:
  - overview of performance

- performance analysis
- the accountability report, comprising:
  - directors' report
  - remuneration report
  - staff report
  - the disclosures set out in the NHS Foundation Trust Code of Governance
  - regulatory ratings
  - statement of accounting officer's responsibilities
  - annual governance statement
- the quality report
- the auditor's report including certificate
- the accounts, including the foreword, primary statements and notes.

We have also taken this opportunity to simplify and streamline chapter 7 of the FT ARM. The changes made include:

- Some disclosure requirements have been removed.
- NHS foundation trusts should no longer need to refer to the Companies Act or its schedules: chapter 7 of the FT ARM contains all the information that the trust needs to understand the requirements for its annual report.
- The paragraphs previously at the end of chapter 7 of 'additional disclosures' have been revised to make the requirements easier to follow: the requirements are either now incorporated directly into specific parts of the annual report, or in some cases have been removed.

We recognise that changes to the requirements of chapter 7 cause some disruption for preparers due to the time it takes to understand the changes. However, Monitor is required to implement the changes in the FReM, and we have tried to do so in a way that is proportionate and maximises the benefits for foundation trusts. We believe that the end result in chapter 7 leads to guidance that makes it easier to follow than it was in 2014/15, with clearer guidance on what fits into each section, and some previous requirements having been removed. To further help preparers understand the changes, we have provided an [annex](#) to this consultation, which sets out:

- a list of disclosure requirements in 2014/15 that have been removed
- a mark-up of chapter 7 of the 2014/15 FT ARM which shows where disclosure requirements have been relocated to in the 2015/16 draft FT ARM.



The references to the 'strategic report with supplementary material' in paragraph 1.27 have been updated accordingly to reflect new terminology.

As guided by the FReM, we anticipate that the following parts of the annual report will be subject to audit:

- the performance report (for consistency with the financial statements)
- the accountability report (for consistency with the financial statements)
- parts of the remuneration report (unchanged)
- fair pay disclosures
- exit packages and
- analysis of staff numbers

We believe that the Comptroller and Auditor General will need to specify these requirements as part of their guidance to auditors and we are currently discussing this with them. We anticipate adding this clarity on what is subject to audit in the post-consultation FT ARM.

**Consultation question 2:**

**Do you have any comment on our proposals for changes to the structure of the annual report and accounts?**

**C. Additional disclosures relating to the unitary payment made in respect of 'on-balance sheet' service concession arrangements**

In 2014/15 we began to collect additional information relating to payments made to the service concession operator(s) in foundation trust consolidation (FTC) forms. This usually relates to Private Finance Initiative (PFI) schemes. This information breaks down the total paid across different elements of the scheme in accordance with the PFI model. From 2015/16 we are proposing that foundation trusts would also be required to disclose this information in the notes to the accounts. We are proposing this because it will help readers of the accounts understand the costs that foundation trusts incur and improve transparency in understanding the finances of foundation trusts. It will also bring the note within the scope of external audit. We consider that production of this note is not burdensome: trusts already need to have this information to complete other parts of the accounts.

Refer to paragraph 5.51(c) of the draft FT ARM.

**Consultation question 3:**

**Do you have any comment on our proposals to require additional disclosure relating to payments made to operators of service concession schemes?**

## **D. Remuneration reporting for senior managers paid more than the Prime Minister**

In June 2015 the Secretary of State for Health wrote to the chairs of NHS foundation trusts, NHS trusts and clinical commissioning groups setting out his views of how pay of the most senior staff in the NHS fits in with the current efficiency challenge. As part of this letter the Secretary of State raises specific points in cases of senior managers paid more than the Prime Minister.

To bring these considerations in line with the remuneration report for foundation trusts, we are proposing that as part of the future policy disclosures in a foundation trust's remuneration report, where one or more executives are paid more than the Prime Minister the foundation trust should explain the steps it has taken to satisfy itself that this remuneration is reasonable.

Refer to paragraph 7.38 of the draft FT ARM.

### **Consultation question 4:**

**Do you have any comment on our proposals to require additional disclosures relating to the policy for senior managers paid more than the Prime Minister as set out above?**

## **E. Other changes**

Some other, more minor, changes have been made to the FT ARM in 2015/16. These include minor changes coming from accounting standards in 2015/16. These other changes are listed below:

- Paragraph 2.7: the table of extant accounting standards has been updated in line with the items in this consultation and other changes to standards.
- Paragraph 2.8: the table of other relevant accounting pronouncements has been updated to reflect the implementation of new accounting standards in the UK.
- Paragraph 3.47 and policy 19 of annex 1 to chapter 3 have been updated to remove references to modified absorption accounting which are no longer required for comparative information.
- Paragraphs 4.22 to 4.24 have been updated to clarify that foundation trusts should present an analysis of operating expenditure in a note to the accounts and that this should include expenditure on consultancy. A new requirement has been added for this analysis to include expenditure on internal audit.

- Paragraph 4.50: requirement added that as part of the disclosure of 'other' staff expenditure, where expenditure on agency/contract staff is material this should be separately disclosed. This is already part of the FTC disclosure note format.
- Paragraph 5.51 part (b) has been updated to require disclosure of the trust's future total commitments for service concessions in line with the FReM replacing the previous requirement to disclose future commitments for the service element. The disclosures will be updated in the FTC template at month 9 accordingly. Comparatives will need to be restated.
- Paragraphs 6.12 and 6.17 have been updated to reflect changes to IAS 24 arising from the IFRS annual improvements 2011-12. This clarifies that where an foundation trust receives key management personnel services from another entity, that entity is considered a related party.

**Consultation question 5:**

**Do you have any comments on the other changes listed or any other amendments?**

## **4. Consultation questions**

1. Do you have any comments on our proposal for implementing IFRS 13 as adopted by the HMT FReM for NHS foundation trusts?
2. Do you have any comment on our proposals for changes to the structure of the annual report and accounts?
3. Do you have any comment on our proposals to require additional disclosure relating to payments made to operators of service concession schemes?
4. Do you have any comment on our proposals to require additional disclosures relating to the policy for senior managers paid more than the Prime Minister?
5. Do you have any comments on the other changes listed or any other amendments?

## **5. Responding to the consultation**

We are keen to hear your views on the details of the proposals. You can find the draft 'NHS foundation trust annual reporting manual 2015/16' [here](#) on our website. Changes are shown in bold italics.

Please complete the consultation response form on our website and return it to [consultation@monitor.gov.uk](mailto:consultation@monitor.gov.uk) by the deadline date below. We will consider the responses in finalising the FT Annual Reporting Manual for 2015/16. If you do not have web or email access, then please write to us at:

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The consultation closes at **5pm** on **Friday 31 July**.



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