

## Financial Reporting Advisory Board Paper

### Department of Health Group Accounting Manual 2016-17 and NHS Foundation Trust Annual Reporting Manual 2016-17

<b>Issue:</b>	This paper presents the draft 2016-17 Department of Health Group Accounting Manual, for FRAB approval, and explains the relationship to the 2016-17 NHS Foundation Trust Annual Reporting Manual. This is in advance of consultations on the Manuals.
<b>Impact on guidance:</b>	The Manual supplements the FReM for the DH Group
<b>IAS/IFRS adaptation?</b>	N/A
<b>Impact on WGA?</b>	N/A
<b>IPSAS compliant?</b>	N/A
<b>Interpretation for the public sector context?</b>	N/A
<b>Impact on budgetary regime?</b>	N/A
<b>Alignment with National Accounts</b>	N/A
<b>Impact on Estimates?</b>	N/A
<b>Recommendation:</b>	FRAB is asked to approve the updates to the DH Group Manual, proposals for the FT Annual Reporting Manual and the continued divergences from the HM Treasury FReM.
<b>Timing:</b>	2016-17

## **DETAIL**

### ***Background***

1. The Department of Health's Group Manual for Accounts 2015-16 was provided in draft to FRAB in March 2015 and approved in June 2015. The 2015-16 Manual saw further alignment with the NHS Foundation Trust Annual Reporting Manual as a step towards full convergence between the manuals.
2. A progress update was presented to FRAB in November 2015 outlining the plan to incorporate the accounting guidance from the NHS Foundation Trusts' Annual Reporting Manual (ARM) into the Group Manual for 2016-17. The Department undertook to provide a draft of the merged Manual in March 2016.
3. The Department and Monitor have worked together to merge the content of the existing manuals, resulting in a single DH Group Accounting Manual (GAM) providing direction over accounts for all entities within the group. As indicated in November, Monitor will continue to provide direction to NHS Foundation Trusts over annual reports in a separate Annual Reporting Manual for 2016-17. All other entities will follow the DH GAM for annual report purposes.
4. There are no significant changes to the content of the merged Manual compared to the 2015-16 manuals. This reflects the stability in the *FReM* in 2016-17. Minor alterations have been made to place more emphasis on accounting principles, rather than on detailed accounts preparation guidance, and to favour a common group approach, supplemented by sector specific guidance where appropriate and useful.

### ***DH Group Accounting Manual 2015-16***

5. The Manual is presented at Annex C. With the publication of a separate ARM 16-17, the focus in the annual reporting chapter is to clarify the differing reporting requirements for each sector, especially in relation to Parliamentary Accountability.
6. The GAM incorporates elements of the format of the previous ARM to improve the flow and usability of the Manual. Chapter 3 relates solely to the framework of accounting, and Chapter 4 the formation of accounting policies. Application of standards to the completion of the SOCI/E, SOFP, SOCTE and SOCF has been moved to Chapters 5-7.
7. Greater emphasis has been placed on the issue of supplementary guidance on sector specific accounting policies and annual report and accounts formats, and the collection of accounts data for consolidation.
8. As the GAM is effectively a new Manual to replace the previous two manuals, it is not practical to provide a comprehensive summary of changes. The basis of convergence is illustrated in Annex A, which explains how the content of the 2015-16 manuals has been incorporated into the 2016-17 Manual. A table of non-merger related amendments to the previous manual can be found in Annex B.

### ***FReM Divergences***

9. Two divergences from the *FReM* for Foundation Trusts previously appeared in the ARM. Monitor have agreed that one of these, relating to IAS 39, is no longer required. Consequently, it has not been incorporated into the GAM. Monitor have also agreed that the second divergence, relating to directors' remuneration disclosures under IAS 24 and the Companies Act 2006 can be reduced. Only the element relating to disclosure of other benefits, arising from section 413 of the

Companies Act 2006, which exceeds the requirements of the FReM, is retained. This remaining divergence is listed in Chapter 3 Annex 5, along with existing divergences for the core Department of Health, which are unchanged from 2015-16.

### **2016-17 FT ARM**

10. The FT Annual Reporting Manual in 2016/17 will therefore be a condensed document that only contains the requirements for foundation trusts' annual reports, with foundation trusts following the Group Accounting Manual for accounting requirements.

11. As there are no changes in the FReM in 2016/17 compared to 2015/16, there are similarly no changes to the content of foundation trusts' annual reports requirements. Monitor has therefore agreed with the FRAB Secretariat that it is not necessary to provide this revised 2016/17 manual as part of this FRAB paper but it is available on request.

12. From 1 April Monitor and the NHS Trust Development Authority will operationally merge to form NHS Improvement. Over the coming months the oversight and regulation regime for NHS trusts and NHS foundation trusts will be revised as a common approach is formed. It is therefore possible that there may be consequential updates required to the annual reports for NHS foundation trusts later in the financial year. We will make the FRAB Secretariat aware of these and in the unlikely event that they are considered significant Monitor will present these to FRAB.

### **Next Steps**

13. Following FRAB approval, both Manuals will be subject to consultation in the relevant health sectors. We propose to consult entities within the accounting boundary and other interested parties in May and June. This is because local bodies have told us that they would prefer to consider the new manuals after they have completed the preceding year's accounts in May.

14. Following consultation with stakeholders, both Manuals will be updated as required and we will seek final sign-off from FRAB shortly afterwards. We request the establishment of a sub-group to provide this sign-off out of meeting, assuming that no significant issues arise.

### **Recommendation**

15. FRAB is asked to:

- approve the DH Group Manual for consultation,
- approve the proposals for the FT ARM,
- approve the divergences from the HM Treasury FReM, and
- agree to the establishment of a sub-group to give final sign-off.

**Annex A: Detail of the convergence between the 2015-16 DH Manual for Accounts and the 2015-16 NHS Foundation Trust Annual reporting Manual**

See separate document

**Annex B: Detail of changes in DH Group Manual 2016-17**

<b>2016-17 Manual reference</b>	<b>Change</b>	<b>Reason for change</b>
Fair pay disclosure (para 2.41 – 2.47)	Text updated	Reflects the update to paragraph 5.3.25 of the 2016-17 FReM
Parliamentary Accountability (para 2.50 – 2.55)	This section has been rewritten, including a table of applicability of the parliamentary report requirements to different sectors in the accounting boundary, and explains the significance to the remainder of the accounting disclosure guidance, e.g. losses and special payments	The previous guidance was unclear as to who was required to complete this report, especially given the addition of the audit report in this section.  The rewrite make it clear for whom it is mandatory and optional,
Para 2.56-2.57	Details added to emphasise which sectors within the group are required to lay accounts before parliament	Added as an introduction to the following sub-section on Strategic Reporting, to make it clear who that sub-section applies to.
Para 4.83, 4.86	Additional sentences included to explain the circumstances under which a departmental body might expect to prepare accounts on a basis other than Going Concern	To improve understanding between the Going Concern status in the event of cessation of function, and the dissolution of an entity due to transfer (and continuation) of function to another departmental body
Chapter 4 – Annual Accounts Format	Sub-sections relating to Primary statements, notes, example accounts formats and accounts data collection collated under a single heading.	Chapter restructure to highlight differences between sectors of example/illustrative accounts formats, accounts data collections and supplementary guidance for these areas
Chapters 5-7	References to sector specific forms completion guidance has been removed throughout these chapters	To remove the direction to sectors that the specific accounts lines do not apply to, in light of differing accounts formats across the group
Chapter 5	Specific chapter relating to the Statement of Comprehensive Income (Net Expenditure) and associated disclosure notes	Relevant content moved from previous Chapter 4 to improve usability of the manual
Para. 5.70 – 5.72	Foundation Trust divergence on directors' remuneration disclosures reduced to requirements of Companies Act 2006 section 413 only.	Requirement for section 412 disclosures removed in line with accounts simplification agenda and for consistency with other group bodies.
Chapter 6	Specific chapter relating to the Statement of Financial Position and associated disclosure notes	Relevant content moved from previous Chapter 4 to improve usability of the manual
Para 6.17 – 6.19	Text revised to explain the circumstances under which asset revaluation and reclassification is required	To improve the clarity of the revaluation and reclassification requirement amid confusion over whether revaluation/movement to NCA Held for Sale is required prior to sale
Chapter 7	Specific chapter relating to the Statement of Changes in Taxpayers Equity, Statement of Cash Flows and	Relevant content moved from previous Chapter 4 to improve usability of the manual

	other accounts disclosure notes not covered in Chapters 5/6	
Para 7.14-7.15	Requirements updated	Reflects change to the FReM

***Annex C: Department of Health Group Accounting Manual 2016-17***

See separate document