

# Monitor

Making the health sector  
work for patients

## 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.

## Contents

<b>Introduction</b> .....	<b>5</b>
Summary of key changes for 2015/16 .....	5
<b>1. Annual report and accounts preparation and submission requirements</b> .....	<b>8</b>
Annex 1 to Chapter 1: Directions .....	25
Annex 2 to Chapter 1: Laying annual report and accounts before Parliament....	28
Annex 3 to Chapter 1: Example Certificate on FT Consolidation Schedules .....	32
<b>2. Financial reporting requirements</b> .....	<b>33</b>
International Financial Reporting Standards (IFRS).....	33
Other relevant accounting pronouncements .....	39
Companies Act 2006 requirements.....	39
Accounting standards and amendments issued but not yet adopted in the ARM .....	42
Annex 1 to Chapter 2: Departures from the <i>FReM</i> .....	43
Annex 2 to Chapter 2: Main differences between NHS trust and NHS foundation trust accounts .....	45
<b>3. Financial statements: general</b> .....	<b>46</b>
Introduction .....	46
Accounting policies.....	48
Consolidated accounts .....	50
Business combinations.....	53
Annex 1 to Chapter 3: Example IFRS accounting policies .....	58
<b>4. Statement of Comprehensive Income and notes</b> .....	<b>75</b>
Income .....	76
Operating expenses .....	80
Notes to the Statement of Comprehensive Income.....	84
Annex 1 to Chapter 4: Definition of consultancy expenditure .....	90
<b>5. Statement of Financial Position and notes</b> .....	<b>92</b>
Format of the Statement of Financial Position .....	92
Property, plant and equipment (IAS 16).....	92
Heritage assets .....	98
Intangible assets (IAS 38).....	98
Impairment of property, plant and equipment, intangible assets and heritage assets (IAS 36).....	100
Borrowing costs (IAS 23).....	101
PFI schemes .....	102
Leased assets (IAS 17) .....	104

Investment property (IAS 40).....	105
Financial instruments (IAS 32, 39 and IFRS 7).....	106
Provisions (IAS 37).....	107
Taxpayers' equity .....	109
Notes to the Statement of Financial Position .....	110
<b>6. Other statements and notes .....</b>	<b>111</b>
Statement of Changes in Taxpayers' Equity .....	111
Statement of Cash Flows.....	111
Other notes to the accounts.....	112
<b>7. Annual reporting guidance for NHS foundation trusts .....</b>	<b>117</b>
Introduction .....	117
Content of the annual report .....	117
Performance report.....	118
Accountability report.....	121
Directors' report.....	122
Remuneration report.....	125
Staff report .....	140
NHS Foundation Trust Code of Governance .....	142
Regulatory ratings .....	152
Statement of accounting officer's responsibilities.....	153
Annual governance statement .....	153
Quality report.....	154
Voluntary disclosures .....	154
Annex 1 to Chapter 7: Exit packages.....	156
Annex 2 to Chapter 7: Quality Report requirements.....	159
Annex 3 to Chapter 7: Staff survey report – template commentary and data section.....	164
Annex 4 to Chapter 7: Regulatory ratings report – template commentary and table of analysis.....	166
Annex 5 to Chapter 7: Model statement of accounting officer's responsibilities	167
Annex 6 to Chapter 7: Model Annual Governance Statement.....	169
Annex 7 to Chapter 7: Monitor's Quality Governance Framework.....	174
Annex 8 to Chapter 7: Off-payroll arrangements disclosure requirements .....	182
Annex 9 to Chapter 7: Fair Pay Multiple – requirements published by HM Treasury .....	186

# Introduction

An NHS foundation trust's annual report and accounts is a vital tool that allows important information to be communicated to its key stakeholders: Parliament, patients and the public. Monitor's core duty is to protect and promote the interests of patients; in pursuit of this we see great value in accurate and comprehensive reporting that allows both the trust itself and all interested parties a clear view of the financial year's operations and outcomes. For more information on the legislative background for this document, please see Chapter 1.

## Summary of key changes for 2015/16

For ease of reference, the key changes in this document compared to the *NHS Foundation Trust Annual Reporting Manual 2014/15 (FT ARM 2014/15)* are set out below. The comparison is with the final 2014/15 FT ARM published in March 2015.

Changes are also shown in bold italics in this document.

	<b>Area of change</b>	<b>Reference in FT ARM 2015/16</b>
<b>Main changes</b>		
1.	The format of the annual report has been revised to implement changes made to the HM Treasury Financial Reporting Manual (FReM) for 2015/16, and to simplify the previous requirements of chapter 7 of the FT ARM. More details are provided in the consultation document.	Paragraph 1.11 and chapter 7.
2.	Implementation of International Financial Reporting Standard (IFRS) 13 on fair value accounting.	Paragraphs 5.2 to 5.33.

	<b>Area of change</b>	<b>Reference in FT ARM 2015/16</b>
3.	A new disclosure of the costs of Private Finance Initiative (PFI) and Local Improvement Finance Trust (LIFT) schemes has been added for inclusion in the accounts. This is information currently collected in the Foundation Trust Consolidation (FTC) schedules.	Paragraph 5.51(c).
4.	A new requirement has been added to the future policy disclosures in the remuneration report where one or more executives are paid more than the Prime Minister for the foundation trust to explain the steps it has taken to satisfy itself that this remuneration is reasonable.	Paragraph 7.39.
<b>Other changes</b>		
5.	The FT ARM has been updated to clarify that foundation trusts should present an analysis of operating expenditure in a note to the accounts and this should include expenditure on consultancy. A new requirement has been added for this analysis to include expenditure on internal audit.	Paragraphs 4.23 to 4.25.
6.	A requirement has been added that where expenditure on agency/contract staff is material as part of the 'other staff' total, this should be separately disclosed.	Paragraph 4.51.
7.	In line with the FReM, for service concession schemes that are held 'on-Statement of Financial Position' there should be disclosure of the trust's total commitments, rather than commitments under the service element as previously required by the FT ARM.	Paragraph 5.51(b).

	<b>Area of change</b>	<b>Reference in FT ARM 2015/16</b>
8.	The disclosure requirements for related parties have been updated to reflect changes to IAS 24 arising from the IFRS annual improvements 2011-12. This clarifies that where an FT receives key management personnel services from another entity, that entity is considered a related party.	Paragraphs 6.12 and 6.17.

A full list of changes to the FT ARM 2015/16 can be found in the original [consultation document](#) and the [consultation response](#) published in November 2015.

# 1. Annual report and accounts preparation and submission requirements

## **Statutory requirements for NHS foundation trusts' annual accounts**

- 1.1. There are three main statutory requirements for an NHS foundation trust in relation to its accounts:
  1. to keep proper accounts and proper records in such form as the regulator may, with the approval of the Secretary of State, direct
  2. to prepare in respect of each financial year annual accounts in such form as the regulator may, with the approval of the Secretary of State, direct and
  3. to comply with any directions given by the regulator, with the approval of the Secretary of State, as to:
    - the methods and principles according to which the accounts are to be prepared and
    - the content and form to be given in the accounts.
- 1.2. These requirements are set out in paragraphs 24 and 25 of Schedule 7 to the National Health Service Act 2006 (the '2006 Act').
- 1.3. In determining the form and content of the annual accounts, Monitor, as the regulator, must aim to ensure that the accounts present a true and fair view (paragraph 25(3), Schedule 7 to the 2006 Act). We must obtain the Secretary of State's approval for the Accounts Direction. The agreed Accounts Directions in respect of the annual accounts and of the annual report are both shown at Annex 1 to this chapter.
- 1.4. ***In obtaining the Secretary of State's approval, Monitor also ensures that this manual is consistent with the principles of the Department of Health's Manual for Accounts. Where this manual allows foundation trusts to account for items differently to the***



***Manual for Accounts, Monitor takes steps as part of the consolidation of foundation trust accounts to ensure that the consolidated position is consistent with the requirements for the Department of Health group accounts.***

**Sources of guidance for NHS foundation trusts' annual accounts**

- 1.5. In order to present a true and fair view, the accounts of an NHS foundation trust must comply with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) unless directed otherwise. The main source of guidance, therefore, for NHS foundation trust finance staff will be accounting standards published by the International Accounting Standards Board and supplementary guidance.
- 1.6. NHS foundation trusts also fall within the remit of the Financial Reporting Advisory Board (FRAB) which provides independent accounting advice in respect of public sector bodies to HM Treasury and the equivalent bodies in Scotland and Northern Ireland. The advice of FRAB is reflected in HM Treasury's *Financial Reporting Manual (FReM)* which is written for government departments, executive agencies, executive non-departmental public bodies and trading funds. This manual is consistent with the requirements of the *FReM* and provides relevant guidance on departure from IFRS. Divergences from the *FReM* for NHS foundation trusts must be approved by FRAB and the current list of divergences is included in Annex 1 to Chapter 2 of this manual.
- 1.7. If NHS foundation trusts wish to refer to the *FReM* on a particular issue, a copy can be accessed on the resource accounting website [here](#).<sup>1</sup>
- 1.8. NHS foundation trusts should discuss the practical application of accounting standards with their auditors and agree the accounting approach which will be adopted. Guidance on accounting standards is included in this manual only where NHS foundation trusts are:
  - required to depart from IFRS
  - required to make disclosures which are in addition to IFRS or
  - faced with particular circumstances which IFRS does not address.

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<sup>1</sup> <https://www.gov.uk/government/publications/government-financial-reporting-manual>

- 1.9. It is expected that those preparing an NHS foundation trust's annual report and accounts will consult this manual in the first instance and then refer to accounting standards where necessary. Other relevant guidance is cross referenced in this manual where appropriate.
- 1.10. This manual will be finalised following a consultation exercise. It may be necessary for us to issue amendments to this manual as issues arise. Directors of finance will be notified by email of any amendments to the current manual and the amendments will also be published on Monitor's website.

### **Content of the annual report and accounts**

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

- ***the performance report (see chapter 7) comprising:***
  - ***overview of performance***
  - ***performance analysis***
- ***the accountability report (see chapter 7), 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 foreword to the accounts which should state that the accounts are prepared in accordance with paragraphs 24 and 25 of Schedule 7 to the NHS Act 2006 and are presented to Parliament pursuant to Schedule 7, paragraph 25 (4) (a) of the National Health Service Act 2006;
- four primary financial statements (Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Taxpayers' Equity and a Statement of Cash Flows); and
- the notes to the accounts.

1.12. NHS foundation trusts are able to present their annual report and accounts in any way that they choose, providing that they are compliant with IFRS and the additional requirements laid down in this manual. ***The sections of the annual report and accounts must follow the overall format set out in paragraph 1.11.*** This manual does not include an accounts template although it does include some example statements and notes where it is considered useful. ***Monitor produces a separate accounts template which foundation trusts may choose to use if they wish. It is optional for use and does not form part of this accounts direction.***

### **Consolidated NHS foundation trust accounts**

1.13. Monitor is required by statute (paragraph 17(1), Schedule 8 to the Health and Social Care Act 2012<sup>2</sup>) to prepare a report in respect of each financial year which provides an overall summary of the accounts of NHS foundation trusts. This report must be prepared as soon as possible after we have received the annual report and accounts of all NHS foundation trusts for the relevant financial year and must be laid before Parliament and copied to the Secretary of State. The accounts of all NHS foundation trusts will also be consolidated into the *Whole of Government Accounts* prepared by HM Treasury. NHS foundation trusts will have to complete consolidation schedules to allow for the capture of accounting data for the summary of accounts and the *Whole of Government Accounts*.

### **Deadlines, approval and publication procedures**

1.14. Monitor has issued the deadlines below for the production of the NHS foundation trust annual reports and accounts for the year ended 31 March 2016. **Please note it is the responsibility of the trust's accounting officer (not the auditor's) to comply with these requirements.** The full timetable for the year can be found at [www.gov.uk/monitor/accountsprocess](http://www.gov.uk/monitor/accountsprocess).

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<sup>2</sup> The "2012 Act".

Deadline	What is required?	Where should it be sent?
<p><b>Friday 22 April 2016, 9am</b></p>	<ul style="list-style-type: none"> <li>• <b>Draft</b> annual accounts; and</li> <li>• <b>Draft</b> FT consolidated schedules (FTCs).</li> </ul> <p><b>Uploaded to Monitor portal (NOT posted) and given to your auditors</b></p>	<p><b>Your Monitor portal folder</b></p> <p>Outbox (to send to Monitor)</p> <p>(or in case of exceptional technical difficulties) by email: <a href="mailto:ft.accounts@monitor.gov.uk">ft.accounts@monitor.gov.uk</a></p> <p><b>All files uploaded to Monitor portal as <u>Trust Return</u> and activity name <u>FTC Statement M12 – Unaudited</u>. FTC file name should be ‘[MARS ID] Draft FTCs.xlsm’</b></p>
<p><b>Thursday 5 May 2016, noon</b></p>	<ul style="list-style-type: none"> <li>• <b>FTC</b> resubmission for agreement of balances</li> </ul>	<p><b>Your Monitor portal folder</b></p> <p>Outbox (to send to Monitor)</p> <p><b>Uploaded to Monitor portal as <u>Trust Return</u> and activity name <u>FTC Statement M12 – Resubmission</u>. FTC file name should be ‘[MARS ID] Draft FTCs – AoB resubmission.xlsm’</b></p>

Deadline	What is required?	Where should it be sent?
<p><b>Friday 27 May 2016, noon</b></p>	<ul style="list-style-type: none"> <li>• <b>Audited</b> accounts</li> <li>• <b>Audited</b> FTCs</li> <li>• <b>Final</b> text of the annual report (including <b>original signed</b> statement of accounting officer's responsibilities)</li> <li>• <b>Original, signed copy</b> of the signed audit opinion on the accounts</li> <li>• <b>Original, signed copy</b> of the auditor's report on the FTCs</li> <li>• <b>A copy</b> of the auditor's final ISA (UK&amp;I) 260 report</li> <li>• <b>Original, signed</b> Annual Governance Statement</li> <li>• <b>Original, signed</b> Chief Executive's and Finance Director's certificate on the FTCs.</li> </ul> <p><b>Posted</b> and uploaded to <b>Monitor portal</b> (posted first class before the last post on <b>Friday 27 May 2016</b>).</p> <p>For the avoidance of doubt, all of the above should be uploaded electronically AND posted. The copy of the FTCs provided by post need not include the "WGA" tabs for ease of printing, but these tabs continue to be covered by the chief executive's and finance director's certificate on the FTCs.</p>	<p><b>Your Monitor portal folder</b></p> <p>Outbox (to send to Monitor)</p> <p>(or in case of exceptional technical difficulties) by email: <a href="mailto:ft.accounts@monitor.gov.uk">ft.accounts@monitor.gov.uk</a></p> <p><b>Postal address:</b></p> <p>FT Accounts Monitor, Wellington House 133-155 Waterloo Road London, SE1 8UG</p> <p><b>All files uploaded to Monitor portal as <u>Trust Return</u> and activity name <u>FTC Statement M12 – Audited</u>. FTC file name should be '[MARS ID] Audited FTCs.xlsm'</b></p>

Deadline	What is required?	Where should it be sent?
<p><b>Friday 27 May 2016, 5pm</b></p>	<ul style="list-style-type: none"> <li>• <b>A copy of the limited assurance report on the content of the quality report and the mandated performance indicators requiring a limited assurance report</b></li> <li>• <b>A copy of the auditors' private report to the governors on the outcome of the external work performed on the content of the quality report, the mandated indicators and any local indicators</b></li> </ul> <p><b>Posted and uploaded to Monitor portal (posted first class before the last post on Friday 27 May 2016).</b></p>	<p><b>Your Monitor portal folder</b></p> <p>Outbox (to send to Monitor) (or in case of exceptional technical difficulties) by email: <a href="mailto:ft.accounts@monitor.gov.uk">ft.accounts@monitor.gov.uk</a></p> <p><b>Postal address:</b></p> <p>FT Accounts Monitor Wellington House 133-155 Waterloo Road London, SE1 8UG</p> <p><b>Files uploaded to Monitor portal as <u>Trust Return</u> and activity name <u>Quality Reports submission</u>. File names should make the title of each submission clear and begin with the trust's MARS ID.</b></p> <p>Note: It is also acceptable to include these documents with the accounts submission and use the 'FTC Statement M12 – Audited' activity on the Portal, but please do not use the FTC activity name after 12 noon. If the quality reports assurance documents are uploaded after 12 noon, please use the quality reports activity name as detailed here.</p>

Deadline	What is required?	Where should it be sent?
<b><i>In advance of 22 June 2016</i></b>	<p><b>Send annual report and accounts to Parliamentary Clerk for approval before printing.</b></p> <div data-bbox="418 461 871 636" style="border: 1px solid black; padding: 5px;"> <p><b>Please see Annex 2 to Chapter 1 for more details and pay careful attention to the checklist provided</b></p> </div>	See annex 2 to chapter 1.
<b><i>Friday 24 June 2016</i></b>	<p><b>Laying annual reports and accounts before Parliament:</b></p> <ul style="list-style-type: none"> <li>• <b>Full</b> annual report and <b>full</b> statutory accounts (bound as one document)</li> <li>• <b>Five hard copies</b> to be <b>posted</b> to the Parliamentary Clerk's office for laying before Parliament to arrive on or before <b>24 June 2016</b> (posted first class before the last post on <b>22 June 2016</b>)</li> <li>• <i>PDF of report and accounts to be sent to <a href="mailto:MB-SI@dh.gsi.gov.uk">MB-SI@dh.gsi.gov.uk</a>.</i></li> </ul> <div data-bbox="418 1451 871 1626" style="border: 1px solid black; padding: 5px;"> <p><b>Please see Annex 2 to Chapter 1 for more details and pay careful attention to the checklist provided</b></p> </div>	<p><b>Postal address:</b></p> <p>The Parliamentary Clerk  Department of Health  Room 402  Richmond House  79 Whitehall  London SW1A 2NS</p>

Deadline	What is required?	Where should it be sent?
<b>Monday 11 July 2016</b>	<p><b>Sending laid reports to Monitor:</b></p> <ul style="list-style-type: none"> <li>• <b>Full</b> annual report and <b>full</b> statutory accounts <b>(formatted as a single PDF)</b></li> </ul> <p><b>Monitor portal/emailed to Monitor:</b> a copy to be sent electronically for inclusion in the NHS foundation trust directory on Monitor’s website. All NHS foundation trusts should make this submission, including if the previous audited submission was as laid before Parliament.</p> <p><b>See Annex 2 to Chapter 1 for more details</b></p>	<p><b>Your Monitor portal folder</b></p> <p>Outbox (to send to Monitor), or in case of technical difficulties, by email:  <a href="mailto:ft.accounts@monitor.gov.uk">ft.accounts@monitor.gov.uk</a></p> <p><b>File uploaded to Monitor portal as <u>Trust Return and activity name Annual Report and Accounts (Parliament)</u>. The file name should begin with the Trust’s MARS ID.</b></p>

- 1.15. Auditors are required to read the information in the annual report and refer to this in their audit report. Therefore, the draft annual report must be submitted to the auditor to allow them sufficient time to do this prior to signing their opinion on the accounts.
- 1.16. The annual report and accounts submitted on 27 May 2016 must be formally approved by the NHS foundation trust board of directors (the board). After adoption by the board, the chief executive, as the Accounting Officer, should sign and date the Statement of Financial Position and annual report as evidence of this. As Accounting Officer, the chief executive should also sign the foreword to the accounts, the annual governance statement and the remuneration report. The annual report and accounts should disclose the name of the person who signed them. Once the annual report and accounts have been approved the auditor will sign the opinion on the accounts.
- 1.17. Once the annual report and accounts have been approved, the Accounting Officer or director of finance must sign a certificate which states that the consolidation schedules (FTCs) are consistent with the annual accounts. Annex 3 to this chapter includes the required wording for such a certificate.



- 1.18. NHS foundation trusts are required to lay their annual report and accounts, with any report of the auditor on them (including the limited assurance opinion on the Quality Report), before Parliament (paragraph 25(4)(a)), Schedule 7 of the 2006 Act) before the summer recess begins to enable parliamentary scrutiny.
- 1.19. The requirement to lay the annual report and accounts before Parliament means that they are classified as an Act Paper and become the property of Parliament. There are strict rules about the format of the publication and these must be followed in every case. Full details are contained in Annex 2 to Chapter 1 of this document.
- 1.20. The annual report and accounts which are laid before Parliament **must include the full statutory accounts and not summarised information**. The annual report and accounts that each NHS foundation trust submits to Parliament to be laid must be one document. It might be that this is formed from two electronic files but they must be presented (ie, the hard copy must be bound) as one document.
- 1.21. The annual report submitted on 27 May 2016 must include all of the text which will be included in the final publication submitted to Parliament. This is because the auditors will need to see the form of the annual report prior to signing their opinions. The period between 27 May 2016 and submission to Parliament is to allow NHS foundation trusts time to format the document to the standards required for publication.
- 1.22. Until the annual report and accounts have been laid before Parliament nothing can be published by the NHS foundation trust for the wider public.
- 1.23. Once laid before Parliament the annual report and accounts cannot be changed. Guidance on the form and content of the annual report is included in Chapter 7 of this manual. However, NHS foundation trusts have the discretion to publish an **additional summarised document** locally, see paragraph 1.27 below for more details.
- 1.24. Copies of the audited annual accounts, any report of the auditor and the latest annual report must be made available for inspection by members of the public free of charge at all reasonable times (paragraph 22(1), Schedule 7 of the 2006 Act). It is the foundation trust's own responsibility to ensure that once laid before Parliament, the annual report and accounts are made available to the public. Any person who requests a copy of or an extract from any of these documents must be provided with one, although a reasonable copying

charge may be levied where the person requesting a copy or extract is not a member of the NHS foundation trust (paragraph 22(4), Schedule 7 of the 2006 Act).

### **Annual general meeting of the council of governors**

- 1.25. The annual report and accounts and auditor's report on the accounts must be presented to the council of governors at a meeting of the council of governors (paragraph 28, Schedule 7 of the 2006 Act). This meeting of the council of governors should be convened within a reasonable timescale after the end of the financial year but must not be before the annual report and accounts have been laid before Parliament.
- 1.26. It is suggested that an advertisement be placed in the local media not less than 14 days prior to the date of the meeting, stating:
  - the time, date and location of the meeting and
  - that copies of the annual report and accounts (or annual report and summary financial statements) of the NHS foundation trust are available, on request, prior to the meeting and how copies can be obtained.

### ***Performance report: overview with supplementary material***

- 1.27. Once the full annual report and accounts have been laid before Parliament, NHS foundation trusts have discretion as to whether they wish to publish the full document locally or a **separate performance report: overview<sup>3</sup>** together with supplementary material.
- 1.28. The **performance report: overview** and supplementary material must be made available to the public free of charge, although a reasonable copying charge may be levied for copies of the full audited accounts where the decision has been made to publish the **performance report: overview** and supplementary material. The supplementary material must, as a minimum in accordance with s426A of the Companies Act 2006:
  - contain a statement that the **performance report: overview with supplementary material** is only part of the foundation trust's annual report and accounts

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<sup>3</sup> The Companies Act 2006 refers to publishing a strategic report with supplementary material. The FReM has replaced the strategic report in the public sector with the performance report. See chapter 7 for full details. Monitor considers that the performance report: overview section (as defined in chapter 7) is the equivalent to the strategic report for these purposes.

- state how a person can obtain a copy of the foundation trust's full annual report and accounts
  - state whether the auditor's report on the full annual report and accounts was unqualified or qualified and, if qualified, set out the auditor's report in full together with any further material needed to understand the qualification
  - state whether, in that auditor's report, the auditor's statement as to whether the **performance report and accountability report** was consistent with the accounts was unqualified or qualified and, if it was qualified, set out the qualified statement in full together with any further material needed to understand the qualification and
  - contain a copy of that part of the directors' remuneration report which sets out the single total figure table in respect of the foundation trust's directors' remuneration (in accordance with the requirements of chapter 7 of this manual).
- 1.29. The **performance report: overview** and supplementary material must also contain the Annual Governance Statement.
- 1.30. The **performance report: overview** and supplementary material must not be published before the full annual report and accounts have been laid before Parliament.

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

- 1.31. When an NHS trust is authorised as an NHS foundation trust, an annual report and accounts must still be published for the final period of the NHS trust's existence. This may cover a full financial year where the change in status occurs on 1 April or a shorter period where the change in status occurs during the financial year. NHS foundation trusts will be required to prepare the final accounts and summarisation schedules for the predecessor NHS trust and meet the deadlines set by the Department of Health. NHS foundation trusts should be aware that auditors may require the NHS trust accounts to be prepared in accordance with the NHS foundation trust deadline, where earlier, in order for the auditor to issue their report on the NHS foundation trust accounts.
- 1.32. A public meeting must be held by 30 September following the end of the financial year in which the NHS foundation trust was authorised at which the predecessor NHS trust's final annual report and accounts for the final period of NHS trust status must be presented.

- 1.33. The annual report, annual accounts and consolidation schedules for the final period of NHS trust status must be prepared in accordance with the *Manual for Accounts* issued by the Department of Health for the period in question. It is recommended that the annual report and accounts for the final period of the NHS trust is produced as a separate document to the annual report and accounts for the first period of the NHS foundation trust status. This is because the corporate governance regimes and accounting procedures are different for each type of body.
- 1.34. Where an NHS foundation trust is authorised from 1 April, there is no requirement to include prior year comparatives for the Statement of Comprehensive Income, Statement of Changes in Taxpayers' Equity and Statement of Cash Flows. However, the opening Statement of Financial Position should be included in the accounts and some supporting notes will have to include an opening balance. The note for mid-year authorised NHS foundation trusts in the FTC is also required to be completed. These should be drawn up in accordance with the provisions of this Manual.
- 1.35. Where an NHS foundation trust is authorised part way through a financial year, two part-year sets of accounts are required. The first part-year accounts in respect of the predecessor NHS trust should be prepared in accordance with the Manual for Accounts issued by the Department of Health. The second part-year accounts in respect of the NHS foundation trust must be prepared in accordance with this manual. Opening balances for the Statement of Financial Position and related notes as at the date of the NHS foundation trust's establishment should be disclosed but no other comparatives are required. These should be drawn up in accordance with the provisions of this manual.
- 1.36. An NHS foundation trust which is authorised part way through a financial year will show only part year comparatives against its full year results in its second year of operation. The difference in accounting periods should be explained in a narrative note to the accounts.
- 1.37. The closing balances of the predecessor NHS trust will be transferred to the NHS foundation trust using NHS trust accounting policies. Therefore, in accordance with proper accounting practice, these opening balances must be re-stated in accordance with NHS foundation trust accounting practice where this is materially different. Monitor does not expect any material difference to occur, and preparers of accounts for foundation trusts in their first period of operation should contact Monitor if they believe any material

adjustments are required.

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

## **NHS foundation trusts in their final period of operation**

### **Preparation of annual report and accounts**

- 1.39. Where an NHS foundation trust ceases to exist during or at the end of a financial year, the annual report and accounts should be prepared for that period in accordance with this manual. The annual report and accounts should be prepared for the period from 1 April up to the date that the NHS foundation trust ceased to exist. This date may be considered to be the day before the date cited in a transfer order and/or legislation which transfers assets and liabilities to other bodies and dissolves the trust at midnight on that date. For example if the trust is dissolved on 1 October (at midnight), it is reasonable to prepare for the final period accounts as at 30 September, immediately prior to the outward transfers. References to 31 March elsewhere in this manual should be read as the date at the end of the reporting period. The final period annual report and accounts should be submitted in line with the standard timetable set out in paragraph 1.14 above.
- 1.40. When an NHS foundation trust ceases to exist and its services, assets and liabilities are transferring to another NHS body/(ies) or the Secretary of State, one of the receiving bodies will assume responsibility for the preparation of the final period annual report and accounts. Where the transfer and closure occurs significantly earlier than 31 March, the receiving body may wish to prepare the final period accounts in advance of the deadlines in paragraph 1.14. In any case, the annual report and accounts can only be finalised once the post-consultation FT ARM for that year has been issued. The receiving body will also be asked to provide a later Events after the Reporting Period confirmation to Monitor for the purposes of the consolidated foundation trust accounts and the whole of government accounts.
- 1.41. The chief executive of the nominated receiving body referred to in paragraph 1.40 will be required to take on the role of accounting officer for this final period annual report and accounts. The chief executive should ensure he or she is able to obtain the necessary assurances to enable them to make the required declarations.

- 1.42. NHS foundation trusts are reminded to refer to paragraph 3.20 of this manual which sets out how the going concern concept is adapted for the public sector. This definition will continue to apply to the final period annual report and accounts.
- 1.43. Where an NHS foundation trust in special administration has ceased to provide services and its provider licence has been revoked during the year but the entity continued to exist at the end of the financial year, it remains that foundation trust's responsibility to prepare an annual report and accounts for the year and have them audited. The annual report and accounts will be prepared for the full financial year and should be prepared in accordance with the requirements of this manual. It is likely that such a shell organisation will have arrangements in place with another entity (probably a receiving body for its former services) to prepare the annual report and accounts on its behalf, but it is the accounting officer of the now unlicensed foundation trust who will certify the annual report and accounts. Paragraphs 1.49 and 1.50 below provide guidance to a foundation trust in this scenario.

#### **Practical arrangements for annual reports and accounts**

- 1.44. The requirement in paragraph 28, Schedule 7 of the 2006 Act that an NHS foundation trust's annual report and accounts must be presented to the council of governors does not apply to the final period annual report and accounts. This is because the council of governors for that NHS foundation trust will no longer exist when the final period annual report and accounts are prepared.
- 1.45. The requirement in paragraph 25(4a), Schedule 7 of the 2006 Act that an NHS foundation trust's annual accounts should be laid before Parliament will continue to apply. This responsibility will fall to the receiving body referred to in paragraphs 1.40 and 1.41. Where the foundation trust continues to exist but is unlicensed at the end of the financial year, that foundation trust is responsible for ensuring the annual report and accounts are laid before Parliament, although this may be performed with the support of another organisation as envisaged by paragraph 1.43.

#### **Content of accounts and summarisation schedules: for a foundation trust which ceased to exist during the year**

- 1.46. The transfer of assets and liabilities to receiving NHS bodies will be accounted for under absorption accounting as set out chapter 3 of this manual. The date at which the final period accounts are prepared may be immediately prior to the outward transfer, as envisaged by

paragraph 1.39. In this case the outward transfer has not yet happened and so will not be reflected in the accounts, except as an event after the reporting period. In the final period accounts the statement of financial position (SoFP) will record the final balances prior to outward transfers (i.e. will not be nil).

- 1.47. The summarisation schedules (i.e. the Foundation Trust Consolidation schedules, or FTCs) will still be prepared as at 31 March (and 31 December). If the summarisation schedules are prepared as at a date after the outward transfer and the closure of the trust, the summarisation schedules will have a nil statement of financial position, with the closing balances written out as a transfer by absorption.
- 1.48. Paragraph 3.56 sets out the disclosure requirements for transfers by absorption. In addition to these requirements, in the final period accounts the foundation trust should disclose details of the outward transfers and dissolution of the foundation trust as part of its disclosure of events after the reporting period. This disclosure should include summary information showing to which receiving bodies the assets and liabilities in the SoFP have been transferred. Totals of non-current assets, current assets, current liabilities, non-current liabilities and net assets should be presented as a minimum. For example this may be presented as follows:

<i>Analysis of balances transferred to successor organisations (£000)</i>				
<i>Summarised final statement of financial position</i> [this should agree to the SOFP]		<i>Amounts transferred to:</i>		
		[name of receiving body 1]	[name of receiving body 2]	Total
Non-current assets	XX	YY	ZZ	XX
Current assets	XX	YY	ZZ	XX
Current liabilities	(XX)	(YY)	(ZZ)	(XX)
Non-current liabilities	(XX)	(YY)	(ZZ)	(XX)
<b>Net assets/(liabilities)</b>	<b>XXX</b>	<b>YYY</b>	<b>ZZZ</b>	<b>XXX</b>

**Content of accounts and summarisation schedules: for a foundation trust which ceased to provide services during the year but continued to exist at the end of the year**

- 1.49. The transfer of assets and liabilities to receiving NHS bodies will be accounted for under absorption accounting as set out in chapter 3 of this manual. In the final period accounts the statement of financial

position (SoFP) will record nil balances at the year end<sup>4</sup>. Notes to the SoFP will record the balances as being divested by transfers in both the accounts and the summarisation schedules (FTCs). In the accounts it is recommended that this line in the SoFP movements notes is presented at the bottom of each relevant note immediately before the total (which will be nil) to make this clearer to the reader of the accounts. This will not apply to SoFP notes such as receivables and payables where a movements note is not usually presented.

1.50. Paragraph 3.56 sets out the disclosure requirements for transfers by absorption. In addition to these requirements, in the final period accounts the foundation trust should disclose in a note to the accounts:

- a clear statement of the date on which services ceased to be provided by the foundation trust, the fact that the accounts are being prepared as at 31 March, and the reasons for this
- the statement of financial position (without notes, although the foundation trust may provide further information if desired) immediately prior to the outward transfer(s) when services ceased to be provided. This SoFP will therefore represent the total amounts being transferred out (plus, exceptionally, any balances remaining in the foundation trust) and
- summary information showing to which receiving bodies the assets and liabilities in the SoFP have been transferred. Totals of non-current assets, current assets, current liabilities, non-current liabilities and net assets should be presented as a minimum. For example this may be presented as follows:

<i>Analysis of balances transferred to successor organisations (£000)</i>				
<i>Summarised statement of financial position as at [date]</i> [this should agree to the full final SoFP provided in the note above]		<i>Amounts transferred to:</i>		
		[name of receiving body 1]	[name of receiving body 2]	Total
Non-current assets	XX	YY	ZZ	XX
Current assets	XX	YY	ZZ	XX
Current liabilities	(XX)	(YY)	(ZZ)	(XX)
Non-current liabilities	(XX)	(YY)	(ZZ)	(XX)
<b>Net assets/(liabilities)</b>	<b>XXX</b>	<b>YYY</b>	<b>ZZZ</b>	<b>XXX</b>

<sup>4</sup> Or small balances relating to any residual assets and liabilities which remain in the trust. The FT ARM assumes that the residual balances will be nil for ease of exposition.



## **Annex 1 to Chapter 1: Directions**

### **NATIONAL HEALTH SERVICE ACT 2006**

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

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

Signed by authority of Monitor

**Signed:**

**Name:** Jim Mackey (Chief Executive)

**Dated:** November 2015

## **NATIONAL HEALTH SERVICE ACT 2006**

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

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

#### **1. Application and interpretation**

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

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

for an NHS foundation trust in its first operating period since being authorised as an NHS foundation trust, the accounts of an NHS foundation trust for the period from point of licence until 31 March or

for an NHS foundation trust in its second or subsequent operating period following initial authorisation, the accounts of an NHS foundation trust for the period from 1 April until 31 March or

for an NHS foundation trust in its final period of operation and which ceased to exist as an entity during the year, the accounts of an NHS foundation trust for the period from 1 April until the end of the reporting period.

"the NHS foundation trust" means the NHS foundation trust in question.

#### **2. Form of accounts**

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

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

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

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

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

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

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

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

**Signed by the authority of Monitor**

**Signed:**

**Name:** Jim Mackey (Chief Executive)

**Dated:** November 2015

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

### Statutory requirement

NHS foundation trusts are required to lay their annual report and accounts, with any report of the auditor on them, before Parliament. This includes the limited assurance opinion on the Quality Report.

The annual report and accounts which are laid before Parliament **must include the full statutory accounts**.

Once laid before Parliament the content of the annual report and accounts cannot be changed. Guidance on the form and content of the annual report is included in Chapter 7 of this manual. However, NHS foundation trusts have the discretion, following laying the document before Parliament, to publish separately a **performance report: overview** with supplementary material locally; see paragraph 1.27 for more details.

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

### The process of laying papers before Parliament

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

The Journal Office document can be found at:

[www.tso.co.uk/documents/presentationToParliament-Publishing.pdf](http://www.tso.co.uk/documents/presentationToParliament-Publishing.pdf)

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

- The annual report and accounts that each NHS foundation trust lays before Parliament must be one document. It might be that this is

formed from two electronic files but the final PDF and bound hard copies must be presented as one document.

- The report must be predominately A4 portrait in layout (tables etc. may be in landscape orientation but printing the whole document in landscape is not allowed, even if paper is bound along the long side).
- The report must be securely bound. It should be saddle stitched (stapled through the spine) or perfect bound (glued into the cover). Comb or spiral binding is acceptable but presentation in a ring binder or any other variation of stapling is not.
- The report must have a front and back cover and title page.
- The front and back cover must be a normal paper/card cover, not plastic or transparent. There must not be a plastic cover on the document.
- The title page is page 3 (the front cover is page 1 and the reverse of the front cover is page 2) and is the first inside facing page of the document. It should **only** contain, **and in this order**:
  - the full statutory name of the NHS foundation trust;
  - the title of the document (eg, *Annual Report and Accounts 2015/16*); and
  - the wording “Presented to Parliament pursuant to Schedule 7, paragraph 25 (4) (a) of the National Health Service Act 2006.”
- ***In the rare case where the trust has changed its name after the end of the reporting period, the statutory name of the NHS foundation trust for laying before Parliament should be the name that was in place at the end of the reporting period. If, for example, the trust changes its name on 1 April 2016, an extra line should be added to the title page saying “From 1 April 2016 now known as ... ”.***
- The title of the document must be the same on the front cover as on the title page. The title must reflect the contents of the document, eg, ‘Annual Report and Accounts **2015/16**’. Additional wording on the front cover (such as a short slogan) is permissible but this must be less prominent and not allowed to be confused with the title of the document.
- The title page must not be combined with a contents page, preface, or contain any other text or images.
- ***The font used on the cover and title page should be a reasonable size and not too small.***
- The reverse of the front cover, the reverse of the back cover, and the reverse of the title page, must all be kept blank.
- The back cover must contain no substantive text.

Step 1	<p>You must check that the format of your report is acceptable <b>before</b> printing the final copies of the report. Please send a PDF copy of the report with your full contact details (email address and direct telephone number) to <a href="mailto:MB-SI@dh.gsi.gov.uk">MB-SI@dh.gsi.gov.uk</a>. In the subject line, please give the name of your trust and the words “for checking”. Before sending, make sure you can answer ‘yes’ to all the points in the checklist at the end of this note. You will receive a response to confirm that the format is acceptable and you can then proceed with printing. <b>Given this is a check that the format is correct, this should be provided <u>in advance</u> of the deadline specified below.</b></p>
<p>Step 2</p> <p>Documents must arrive by <b>24 June 2016</b> – see below.</p>	<p>When your annual report and accounts are ready to be laid and it has been confirmed that the format is correct, you must send five bound copies of the annual report and accounts to:</p> <p>The Parliamentary Clerk  Department of Health  Room 402  Richmond House  79 Whitehall  London, SW1A 2NS</p> <p><b>On the package label, please clearly state the name of your NHS foundation trust.</b> Please also include a named contact, telephone number and email address, in case of queries. Please also make sure that the package is secure so that it is not damaged in the post.</p> <p>You must <b>also</b> email a final PDF of the report to be laid to the Department of Health Parliamentary team mailbox <a href="mailto:MB-SI@dh.gsi.gov.uk">MB-SI@dh.gsi.gov.uk</a>. In the subject line, please give the name of your trust and the words “final version”. <b>Your report will not be laid until this PDF has been received.</b></p>

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

To check that your annual report and accounts have been laid before Parliament, visit the Parliament [website](#). Select a date and go to ‘Votes and Proceedings’ (either the webpage or PDF) and look in the appendix for a list of papers laid that day. You may have to trawl through a number of dates until you find your annual report.

## Deadlines for laying documents before Parliament

All annual reports and accounts must be sent to **arrive at** the Parliamentary Clerk by **24 June 2016** to allow sufficient time for laying before the parliamentary summer recess. Laying reports in good time before the Parliamentary recess ensures that there is opportunity for appropriate Parliamentary scrutiny. Reports and accounts will be welcomed for laying before **24 June 2016** but **all** reports and accounts must be sent to the Parliamentary Clerk by this date. It is the trust's responsibility to ensure its report and accounts are laid.

## Checklist of formatting requirements

<b>Make sure you can answer 'yes' to each question below.</b> If the answer is "no" to any question below, your report is likely to be rejected for laying.	
Is the report laid out in A4 (tables may be in landscape if necessary)?	
Does the report have a front and back cover made of paper or card?	
Have you ensured that there is no plastic cover on the document?	
Does the title page <b>only</b> contain, <b>and in this order</b> : <ul style="list-style-type: none"> <li>• the full statutory name of the NHS foundation trust;</li> <li>• the title of the document (eg, <i>Annual Report and Accounts 2015/16</i>); and</li> <li>• the wording "Presented to Parliament pursuant to Schedule 7, paragraph 25 (4) (a) of the National Health Service Act 2006?"</li> </ul>	
Does the title page contain no other text or images?	
Is the title of the document <b>exactly</b> the same on the front cover as on the title page <b>and is the font size on both a reasonable size</b> ?	
Are the reverse of the front cover, the reverse of the back cover, and the reverse of the title page, all blank?	
Does the back cover contain no substantive text?	
Will the annual report and accounts be produced as a single printed document and PDF?	
Will the printed document be perfect bound, saddle stitched, spiral bound or comb bound?	

**Please remember to clearly state the name of the NHS foundation trust on the package label when sending the hard copies.**

## **Annex 3 to Chapter 1: Example Certificate on FT Consolidation Schedules**

### **FTC Summarisation Schedules for [...] NHS Foundation Trust**

Summarisation schedules numbers FTC01 to FTC40 and accompanying WGA sheets for **2015/16** are attached.

#### **Finance Director Certificate**

1. I certify that the attached FTC schedules have been compiled and are in accordance with:
  - the financial records maintained by the NHS foundation trust and
  - accounting standards and policies which comply with the *NHS Foundation Trust Annual Reporting Manual 2015/16* issued by Monitor
2. I certify that the FTC schedules are internally consistent and that there are no validation errors\*.
3. I certify that the information in the FTC schedules is consistent with the financial statements of the NHS Foundation Trust [**\*\*except for** [insert text highlighting where the schedules differ from the accounts and explain the differences]].

[Signature]

[Name], Finance Director

[Date] **2016**

#### **Chief Executive Certificate**

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

[Signature]

[Name], Chief Executive

[Date] **2016**

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

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



## 2. Financial reporting requirements

### International Financial Reporting Standards (IFRS)

- 2.1. Monitor has agreed that it will apply the principles outlined in HM Treasury's *FReM* when producing accounting guidance for NHS foundation trusts (paragraph 1.1.2 of the *FReM*). As the *FReM* is produced for a range of central government departments and bodies, there are parts of it which are not applicable to NHS foundation trusts. This chapter highlights the parts of the guidance which are applicable to NHS foundation trusts and provides additional guidance where necessary.
- 2.2. This manual follows IFRS, as adopted by the EU, to the extent that it is relevant and appropriate to NHS foundation trusts:
  - IFRS issued by the International Accounting Standards Board (IASB)
  - International Accounting Standards (IASs) issued by the predecessor International Accounting Standards Committee (IASC) and subsequently adopted by the IASB
  - Interpretations issued by the IFRS Interpretations Committee (IFRS IC, previously IFRIC)
  - Interpretations issued by the predecessor Standing Interpretations Committee (SIC) and subsequently adopted by IFRIC
  - the 'Framework for the Preparation and Presentation of Financial Statements' issued by the IASC and subsequently adopted by the IASB
  - certain requirements of the Companies Act 2006 and
  - the body of accumulated knowledge built up over time and

promulgated in text books, research papers and technical journals.

### **EU-adopted IFRS**

- 2.3. EU-listed companies that prepare group accounts are required to do so in accordance with IFRS as adopted by the EU rather than IFRS as published by the IASB. The adoption process sometimes creates a delay between the IASB or IFRIC issuing a pronouncement and its subsequent EU adoption, during which time companies cannot early-adopt the new, or amended, requirements.
- 2.4. HM Treasury's approach in the *FReM* is to apply EU-adopted IFRS with some adaptations. Monitor has chosen to require NHS foundation trusts to apply IFRS as adopted by HM Treasury in the *FReM* except for certain departures which are listed in Annex 1 to this chapter.

### **Users of the annual report and accounts**

- 2.5. The information presented in the financial statements should be adequate for the needs of the key users of the financial statements. Users include, but are not limited to:
- the NHS foundation trust's council of governors
  - members of the NHS foundation trust
  - patients and their carers
  - Parliament, including relevant Select Committees
  - Monitor and other regulatory bodies
  - the Department of Health
  - HM Treasury
  - the NHS foundation trust's board of directors and audit committee
  - commissioners and
  - the taxpayer.
- 2.6. The IASB's Framework for the Preparation and Presentation of Financial Statements sets out the principles that the IASB believes should underlie the preparation and presentation of financial statements for users. The preparers of NHS foundation trust annual report and accounts should familiarise themselves with these principles.

## Extant international accounting standards

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

Accounting standard	<i>FReM</i> reference	Additional guidance and reference to relevant guidance in this manual
<b>International Accounting Standards (IAS)</b>		
1 Presentation of Financial Statements	5.4.1 to 5.4.11, 5.4.14 to 5.4.22, 5.4.24 to 5.4.30 and Table 6.2	Paragraphs 3.1 to 3.8.
2 Inventories		
7 Statement of Cash Flows	5.4.14 – 5.4.15	Paragraphs 6.2 to 6.4
8 Accounting Policies, Changes in Accounting Estimates and Errors		Paragraphs 3.9 to 3.19
10 Events after the Reporting Period	Table 6.2	Paragraph 3.23
11 Construction contracts		Unlikely to be relevant to NHS foundation trusts
12 Income taxes		
16 Property, Plant and Equipment	7.1.1 to 7.1.47 and Table 6.2	Paragraphs 5.2 to 5.22
17 Leases		Paragraphs 5.54 to 5.56
18 Revenue	8.1.1 to 8.1.8	Paragraphs 4.5 to 4.10
19 Employee Benefits	Table 6.2 & Section 9.2	Paragraphs 4.26 to 4.31 <b><i>The November 2013 amendment in relation to employer contributions to defined benefit pension schemes applies from 2015/16</i></b>
20 Accounting for Government Grants and Disclosure of Government Assistance	Table 6.2	Paragraphs 4.16 to 4.19
21 The Effects of Changes in Foreign Exchange Rates	Table 6.2	Unlikely to be relevant to NHS foundation trusts
23 Borrowing costs	Table 6.2	Paragraph 5.44
24 Related Party Disclosures	Table 6.2	Paragraphs 6.11 to 6.18 <b><i>The Annual Improvements to IFRS 2010-12 amendments to this standard are applicable from 2015/16.</i></b>

Accounting standard	FReM reference	Additional guidance and reference to relevant guidance in this manual
26 Accounting for Reporting by Retirement Benefit Plans	Not applicable to NHS foundation trusts	
27 Separate Financial Statements (Revised 2011) (and including amendment issued in June 2012)	4.1.1 and Table 6.2	Paragraphs 3.24, 3.27 and 3.30
28 Investments in Associates and Joint Ventures (Revised 2011)	4.1.1 and Table 6.2	Paragraphs 3.32 to 3.33
29 Financial Reporting in Hyperinflationary Economies	Table 6.2	Unlikely to be relevant to NHS foundation trusts
32 Financial Instruments: Presentation	Table 6.2	Paragraph 5.61.
33 Earnings per share		Unlikely to be relevant to NHS foundation trusts
34 Interim Financial Reporting		Not applicable to NHS foundation trusts
36 Impairment of Assets	Section 7.3 and Table 6.2	Paragraphs 5.34 to 5.43 <b><i>The May 2013 amendment in respect of recoverable amount disclosures applies from 2015/16</i></b>
37 Provisions, Contingent Liabilities and Contingent Assets	Table 6.2	Paragraphs 5.66 to 5.78
38 Intangible Assets	Section 7.2 and Table 6.2	Paragraphs 5.24 to 5.33
39 Financial Instruments: Recognition and Measurement	Table 6.2	Paragraph 5.61
40 Investment Property	Table 6.2	Paragraphs 5.57 to 5.59
41 Agriculture		Unlikely to be relevant to NHS foundation trusts
<b>International Financial Reporting Standards (IFRS)</b>		
1 First-time Adoption of IFRS	No longer applicable to NHS foundation trusts	
2 Share-based Payment		Unlikely to be relevant to NHS foundation trusts
3 Business Combinations (Revised)	Section 4.2 and Table 6.2	Paragraphs 3.43 to 3.58
4 Insurance Contracts		Unlikely to be relevant to NHS foundation trusts
5 Non-current Assets Held for Sale and Discontinued Operations	Table 6.2	Paragraphs 4.41 to 4.43
6 Exploration for and Evaluation of Mineral Resources		Unlikely to be relevant to NHS foundation trusts
7 Financial Instruments: Disclosures		

Accounting standard	FReM reference	Additional guidance and reference to relevant guidance in this manual
8 Operating Segments		Paragraphs 4.37 to 4.40
10 Consolidated Financial Statements	4.1.1 and Table 6.2	Paragraphs 3.24 to 3.31
11 Joint Arrangements	4.1.1 and Table 6.2	Paragraphs 3.34 to 3.37
12 Disclosure of interests in other entities	4.1.1 and Table 6.2	Paragraphs 3.38 to 3.41
<b>13 Fair value measurement</b>	<b>Table 6.2 and 7.1.5 to 7.1.6</b>	<b>No specific interpretation of IFRS 13 but see IAS 16 and IAS 38 interpretations</b>
Annual Improvements to IFRS 2009		
Annual Improvements to IFRS 2010		
Annual Improvements to IFRS 2011		
Annual Improvements to IFRS 2012		
Annual Improvements to IFRS 2013		
<b>SIC Interpretations</b>		
7 Introduction of the Euro		Not applicable to NHS foundation trusts
10 Government Assistance – No Specific Relation to Operating Activities		Unlikely to be relevant to NHS foundation trusts
15 Operating Leases – Incentives		
25 Income Taxes – Changes in the Tax Status of an Entity or its Shareholders		Unlikely to be relevant to NHS foundation trusts
27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease		
29 Disclosure – Service Concession Arrangements		Paragraph 5.50
31 Revenue – Barter Transactions Involving Advertising Services		
32 Intangible Assets – Web site costs		
<b>IFRIC Interpretations</b>		
1 Changes in Existing Decommissioning, Restoration and Similar Liabilities		
2 Members' Shares in Co-operative Entities and Similar Instruments		Unlikely to be relevant to NHS foundation trusts
4 Determining whether an Arrangement contains a Lease		Paragraphs 5.55 to 5.56

Accounting standard	FReM reference	Additional guidance and reference to relevant guidance in this manual
5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds		Unlikely to be relevant to NHS foundation trusts
6 Liabilities arising from Participating in a Specific Market: Waste Electrical and Electronic Equipment		Not applicable to NHS foundation trusts
7 Applying the Restatement Approach under IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>		Unlikely to be relevant to NHS foundation trusts
8 Scope of IFRS 2		Unlikely to be relevant to NHS foundation trusts
9 Re-assessment of Embedded Derivatives		
10 Interim Financial Reporting and Impairment		Not applicable
11 IFRS 2 – Group and Treasury Share Transactions		Unlikely to be relevant to NHS foundation trusts
12 Service Concession Arrangements	7.1.48 to 7.1.64	Relevant. See Paragraph 5.45
13 Customer Loyalty Programmes		Unlikely to be relevant to NHS foundation trusts
14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction		Potentially relevant to any pension schemes which are accounted for as defined benefit, eg, a Local Government scheme.
15 Agreements for the Construction of Real Estate		Unlikely to be relevant to NHS foundation trusts
16 Hedges of a Net Investment in a Foreign Operation		Unlikely to be relevant to NHS foundation trusts
17 Distributions of Non-cash Assets to Owners		Unlikely to be relevant to NHS foundation trusts
18 Transfers of Assets from Customers		Unlikely to be relevant to NHS foundation trusts
19 Extinguishing financial liabilities with equity instruments		Not applicable to NHS foundation trusts
20 Stripping costs in the production phase of a surface mine		Unlikely to be relevant to NHS foundation trusts
<b>21 Levies</b>		<b><i>EU adopted in June 2014 and applicable from 2015/16</i></b>

## Other relevant accounting pronouncements

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

Transactions not covered by IFRS requirements	Accounting requirements to be applied by NHS foundation trusts	FReM reference	Additional guidance and reference to relevant guidance in this manual
Accounting for value added tax (VAT).	<b>FRS 102 paragraph 29.20</b>	None	None
Accounting for Heritage Assets	<b>FRS 102 paragraphs 34.49 to 34.35</b>	7.1.30 to 7.1.47	Paragraph 5.23

## Companies Act 2006 requirements

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

2.10. The key requirements are set out in the table below.

CA 2006 Reference	Regulations <sup>1</sup> Reference	Description	Reference to relevant Guidance in this manual
Section 409	Regulation 7 and Schedule 4	Information about related undertakings in a note to the accounts	Paragraph 6.19
Section 410A <sup>2</sup>		Information about off-Statement of Financial Position arrangements in a note to the accounts	Paragraphs 5.52 to 5.53.
Section 411		Information about employee numbers and costs in a note to the accounts	Paragraphs 4.51 to 4.53. <b>Staff numbers are included in the staff report in the annual report: see paragraph 7.79</b>
Section 412 (1) to (5)	Regulation 8 and Schedule 5	Information about directors' benefits: remuneration, in a note to the accounts	Paragraphs 4.47 to 4.50.

CA 2006 Reference	Regulations <sup>1</sup> Reference	Description	Reference to relevant Guidance in this manual
Section 413		Information about directors' benefits: advances, credit and guarantees, in a note to the accounts	Paragraphs 4.47 to 4.50.
Sections: 414A(1),(3) and (4); 414C and 414D(1) <sup>3</sup>		Strategic Report <b><i>These requirements are adapted into the Performance Report by the FReM and adopted for NHS foundation trusts.</i></b>	Chapter 7. <b><i>Note that these sections of the Companies Act are only mandatory to the extent that the provisions are listed in chapter 7.</i></b>
Sections: 415(1) to (3) 416 <sup>3</sup> ; 418(1) to (4); and 419(1).	Regulation 10 <sup>3</sup> and Schedule 7 <sup>3</sup>	Directors' report	Chapter 7. <b><i>Note that these sections of the Companies Act are only mandatory to the extent that the provisions are listed in chapter 7.</i></b>
Sections: 420(1); 421(1) to (2); and 422(1).	Regulation 11 and Schedule 8	Quoted Companies: Directors' Remuneration Report	Chapter 7. <b><i>Note that these sections of the Companies Act are only mandatory to the extent that the provisions are listed in chapter 7.</i></b>  For the avoidance of doubt, section 497 which requires auditors to report on elements of the directors' remuneration report in the audit opinion is applicable. Paragraphs 7.47 to 7.78 set out which parts of the directors' remuneration report are subject to audit.
Sections 426 and 426A <sup>3</sup>		Contents of strategic report with supplementary material (applicable only if an NHS foundation trust chooses to prepare an additional <b><i>performance overview</i></b> report with supplementary material)	If an NHS foundation trust chooses to prepare a <b><i>performance overview</i></b> report with supplementary material, the requirements and interpretations in paragraphs 1.27 to 1.30 must be followed.



<sup>1</sup> “The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)”

<sup>2</sup> Inserted in the Act by “The Companies Act 2006 (Accounts and Reports) (Amendment) Regulations 2008 (SI 2008/393)”

<sup>3</sup> As modified / inserted by “The Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013 (SI 2013/1970)”

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

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

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

<b>Change published</b>	<b>Published by IASB</b>	<b>Financial year for which the change first applies</b>
<i>IFRS 11 (amendment) – acquisition of an interest in a joint operation</i>	<i>May 2014</i>	<i>Not yet EU adopted. Expected to be effective from 2016/17.</i>
<i>IAS 16 (amendment) and IAS 38 (amendment) – depreciation and amortisation</i>	<i>May 2014</i>	<i>Not yet EU adopted. Expected to be effective from 2016/17.</i>
<i>IAS 16 (amendment) and IAS 41 (amendment) – bearer plants</i>	<i>June 2014</i>	<i>Not yet EU adopted. Expected to be effective from 2016/17.</i>
<i>IAS 27 (amendment) – equity method in separate financial statements</i>	<i>August 2014</i>	<i>Not yet EU adopted. Expected to be effective from 2016/17.</i>
<i>IFRS 10 (amendment) and IAS 28 (amendment) – sale or contribution of assets</i>	<i>September 2014</i>	<i>Not yet EU adopted. Expected to be effective from 2016/17.</i>
<i>IFRS 10 (amendment) and IAS 28 (amendment) – investment entities applying the consolidation exception</i>	<i>December 2014</i>	<i>Not yet EU adopted. Expected to be effective from 2016/17.</i>
<i>IAS 1 (amendment) – disclosure initiative</i>	<i>December 2014</i>	<i>Not yet EU adopted. Expected to be effective from 2016/17.</i>
<i>IFRS 15 Revenue from contracts with customers</i>	<i>May 2014</i>	<i>Not yet EU adopted. Expected to be effective from 2017/18.</i>
<i>Annual improvements to IFRS: 2012-15 cycle</i>	<i>September 2014</i>	<i>Not yet EU adopted. Expected to be effective from 2017/18.</i>
IFRS 9 Financial Instruments	<i>July 2014</i>	<i>Not yet EU adopted. Expected to be effective from 2018/19.</i>

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

HM Treasury accepts 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
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*:

<b><i>FReM</i> requirement</b>	<b>NHS foundation trust accounting</b>
<p>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 6.2: IAS 24).</p>	<p>The information on directors' benefits and remuneration required by sections 412 and 413 of the Companies Act 2006 (set out in paragraphs 4.47 to 4.50 of the FT ARM) should be disclosed in a note to the accounts, as required by the CA 2006 and IAS 24, separate from the directors' remuneration report.</p> <p>The requirements for the directors' remuneration report are to be presented separately as part of the annual report, as guided by chapter 7 of the FT ARM.</p> <p>The table in paragraph 2.10 of the FT ARM lists the parts of the Companies Act that apply and where guidance can be found in the FT ARM.</p>
<p>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 (<i>FReM</i> table 6.2: IAS 39).</p>	<p>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).</p>

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

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

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

Notes to the accounts	
Accounting policies	This note will have to be adapted to suit the policies adopted by the NHS foundation trust. Example policies are appended to Chapter 3 but these must be tailored by each body for their own circumstances.
Revenue from patient care activities	The analysis of income may be different as NHS foundation trusts may choose to analyse income by activity rather than source as this is the requirement for the quarterly returns to Monitor. NHS foundation trusts are also required to disclose their income from Commissioner Requested Services (CRS) and non-Commissioner Requested Services (non-CRS).
Better payment practice code and late payment of commercial debt disclosures	This note is not required in the accounts of NHS foundation trusts although it can be included if the NHS foundation trust considers it best practice. It should be included in the Annual Report of the NHS foundation trust if it is not included in the accounts.
Financial performance targets	The standard NHS trust note is not required but it can be replaced by a statement of performance against the NHS foundation trust's own financial targets.
Intra government balances	NHS trusts are required to disclose intra government balances which NHS foundation trusts are not required to disclose in their accounts, but are required to provide information through the FTC forms for central consolidation.

# 3. Financial statements: general

## Introduction

- 3.1. NHS foundation trusts have discretion over the form of financial statements that they consider to be most appropriate to meet their own reporting needs, as long as the requirements of IFRS, as supplemented or amended by this manual, are met. A well-presented set of accounts will include all the information required by the reader of the accounts to understand the financial position of the NHS foundation trust for the period. It will include only information relevant to its situation and will be appropriately cross referenced.
- 3.2. NHS foundation trusts are, however, required to complete foundation trust consolidation reports (FTC forms), which need to be prepared on a consistent basis in order to support the preparation of consolidated accounts of NHS foundation trusts.
- 3.3. This chapter provides guidance on:
  - the application of IFRS to NHS foundation trusts and additional disclosures, beyond the requirements of IFRS, that are mandatory for all NHS foundation trusts in their financial statements and
  - the completion of FTC forms (additional guidance is set out in the FTC completion instructions).
- 3.4. This chapter does not provide guidance on IFRS where there are no specific application issues for NHS foundation trusts. It is therefore essential that NHS foundation trusts review relevant accounting requirements when preparing their financial statements.
- 3.5. NHS foundation trusts must, at a minimum, ensure that they include in their accounts a Statement of Comprehensive Income, a Statement of Financial Position, a Statement of Changes in

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

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

### **Materiality**

- 3.7. IAS 8 notes that accounting requirements in the standards need not be applied to immaterial items, but also notes that "it is inappropriate to make, or leave uncorrected, immaterial departures from IFRS to achieve a particular presentation of an entity's financial position, financial performance or cash flows".
- 3.8. Similarly, IAS 1 notes that specific disclosure requirements of IFRS need not be satisfied if the information is not material. Both IAS 1 and 8 define materiality as follows:
- "Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size and nature of the item, or a combination of both, could be the determining factor."

## Accounting policies

### Selection of accounting policies

- 3.9. In accordance with IAS 8, suitable accounting policies should be selected which provide the most relevant and reliable information in respect of the NHS foundation trust's activities. The policies adopted must be in line with the FT ARM. Example accounting policies are included in Annex 1 to this chapter. ***The basis of preparation should state that the accounts have been prepared under the FT ARM, being a direction issued by Monitor under the NHS Act 2006.***
- 3.10. Where a standard or interpretation applies specifically to a transaction, event or condition, the accounting policy or policies is to be determined by from the relevant pronouncement, including its application guidance.
- 3.11. In the absence of a specific standard or interpretation, paragraphs 10 to 12 of IAS 8 describe the approach that management should take to formulating an accounting policy, including the hierarchy of guidance to which it should refer.

### Changes in accounting policy

- 3.12. An entity may change an accounting policy only where it is required by a new standard or interpretation (including any revisions to this *FT ARM*) or voluntarily only if it results in the financial statements providing reliable and more relevant information about transactions, events, conditions, or the entity's financial position, financial performance or cash flows.
- 3.13. Changes in accounting policy arising from the introduction of a new standard or interpretation shall be implemented in accordance with the specific transitional provisions, if any, of that standard or interpretation. Where no such specific transitional provisions exist, or where an accounting policy is changed voluntarily, the change must be applied retrospectively, i.e. through a prior period adjustment.
- 3.14. IAS 8 requires that prior period adjustments should be effected by restating each element of equity (reserves) at the start of the prior year as if the accounting policy had always applied.
- 3.15. Any difference between the reported financial results and the adjusted financial results should be reported, as described in the standard. This disclosure should be replicated in the free text sheets of the FTCs.
- 3.16. Where an NHS foundation trust has to make a prior period adjustment (for any reason other than an adjustment required by the *FT ARM*),



they should inform Monitor so that the appropriate information can be collected for consolidation.

### **Errors in the financial statements**

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

### **Key sources of judgement and estimation uncertainty**

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

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

### **Future changes in accounting policy**

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

### **Going concern**

- 3.20. IAS 1 requires management to assess, as part of the accounts preparation process, the NHS foundation trust's ability to continue as a going concern. The financial statements should be prepared on a going concern basis unless management either intends to apply to the Secretary of State for the dissolution of the NHS foundation trust without the transfer of the services to another entity, or has no realistic alternative but to do so. Table 6.2 of the *FReM* states that:

"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."  
[extract]

- 3.21. Where management are aware of material uncertainties in respect of events or conditions that cast significant doubt upon the going concern ability of the NHS foundation trust, these should be disclosed. ***Further information is provided in paragraphs 7.15 to 7.19. Any material uncertainties should be disclosed in both the annual report and the accounts.***

### **Comparative amounts**

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

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

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

## **Consolidated accounts**

### **Subsidiaries (IFRS 10)**

- 3.24. Under IFRS 10, an NHS foundation trust controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control should be assessed regardless of the nature of the foundation trust's involvement with the investee; i.e. there does not need to be a formal financial investment in the entity.
- 3.25. Power over the investee occurs where the foundation trust has existing rights that give it the current ability to direct the relevant activities i.e. the activities that significantly affect the foundation trust's returns from the investee.
- 3.26. If the NHS foundation trust determines that an entity is a subsidiary then it consolidates the subsidiary in accordance with IFRS 10.
- 3.27. The NHS foundation trust's annual report and accounts then includes both the group accounts and the NHS foundation trust's individual accounts.

### **Presentation and disclosure**

- 3.28. The principles of IFRS 10 will be applied to all entities in which the

NHS foundation trust has an interest, including NHS charitable funds. Where NHS charitable funds are consolidated, the statement of financial position should present the charitable unrestricted funds, restricted funds and endowments as a single item of charitable reserves.

- 3.29. Additional line items are likely to be needed in the statement of comprehensive income, statement of cash flows and supporting notes to record charitable income.
- 3.30. NHS foundation trusts should provide an analysis of the charitable reserves reported in the group statement of financial position between unrestricted funds; restricted funds; and endowment funds, and an explanation of each fund.
- 3.31. The primary statements and notes to the accounts should be presented with separate 'Group' and 'Foundation Trust' columns. The foundation trust is able to take advantage of the exemption afforded by the Companies Act to omit the statement of comprehensive income for the foundation trust parent if it wishes. Where a foundation trust takes advantage of this exemption it should disclose that it has done so in a note to the accounts, together with the surplus/deficit of the parent trust and comply with the other requirements of section 408 of the Companies Act.

More widely, where the foundation trust determines that the difference between the 'Group' and 'Foundation Trust' numbers is immaterial for a particular note, the 'Foundation Trust' version of that note may be omitted from the accounts but the omission and the extent of the immaterial differences should be explained in each note.

### **Associates (IAS 28)**

- 3.32. An entity is an associate of an NHS foundation trust where the trust has significant influence over it, and yet the entity is not a subsidiary or a joint arrangement (being a joint operation or joint venture). Significant influence is the power to participate in the financial and operating policy decisions of the entity, but is neither control nor joint control over the policies. It is therefore, sufficient for the NHS foundation trust merely to have the power to exercise significant influence in order for the entity to be an associate, regardless of whether the power is actually used in practice.
- 3.33. Where an associate exists, the NHS foundation trust must recognise its activities through the equity accounting method in accordance with IAS 28. The use of the equity method for associates is required even where the NHS foundation trust is not already preparing consolidated

accounts. Where, however, an associate is classified as 'held for sale' in accordance with IFRS 5, it shall instead be accounted for in accordance with the requirements of that standard.

### **Joint arrangements (IFRS 11)**

- 3.34. A joint arrangement is an arrangement of which two or more parties have joint control. Joint control, in turn, is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture.
- 3.35. The classification of a joint arrangement as either a joint operation or a joint venture depends on the rights and obligations of the parties to the arrangement.
- 3.36. A joint operation exists where the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement. Where an NHS foundation trust is a joint operator it should recognise its, or its share of, assets, liabilities, income and expenses in its own accounts.
- 3.37. A joint venture exists where the parties that have joint control have rights to the net assets of the arrangement. Where an NHS foundation trust is a joint venturer, it should recognise its investment in its group accounts through the equity method in IAS 28 (unless exempted from doing so under that standard). In its separate financial statements, the foundation trust recognises its interest in the joint venture in accordance with paragraph 10 of IAS 27.

### **Disclosure of interests in other entities (IFRS 12)**

- 3.38. The standard sets out disclosure requirements, including summarised financial information, for an entity's investments in subsidiaries, joint arrangements and associates. NHS foundation trusts who have such interests should make the required disclosures. The disclosures relating to subsidiaries will apply to NHS foundation trusts consolidating NHS charitable funds.
- 3.39. The standard also requires disclosure of interests in unconsolidated structured entities. Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example where voting rights relate to administrative tasks only and the relevant activities are directed instead by means of contractual arrangements.
- 3.40. While IFRS 12 applies in full, NHS foundation trusts are expected to

take a proportionate approach to these disclosures and may wish to apply the aggregation principles set out in paragraphs B2 to B6 of the standard where a foundation trust has a number of interests to disclose, if applicable.

- 3.41. The foundation trust should also include disclosures for related undertakings as required by the Companies Act 2006 (section 409 and regulation 7 and schedule 4 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 – SI 2008/410).

### **Interests in entities not accounted for under IFRS 10 and IFRS 11**

- 3.42. Where a foundation trust has an interest in a subsidiary, joint arrangement or associate which has not been accounted for under IFRS 10 or IFRS 11 (for example on the grounds of materiality), the name of the entity, nature of the relationship and the basis for non-consolidation should be disclosed in the foundation trust's accounting policies.

## **Business combinations**

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

- 3.43. Where an NHS foundation trust transfers a function to, or receives a function from another entity within the Whole of Government Accounts boundary this represents a “machinery of government change” regardless of the mechanism used to effect the combination, eg, statutory merger or purchase of the business.
- 3.44. For these purposes, a function is defined as “an identifiable business operation with an integrated set of activities, staff and recognised assets and/or liabilities that are capable of being conducted and managed to achieve the objectives of that business operation”.
- 3.45. NHS foundation trusts will normally account for a machinery of government change as a ‘transfer by absorption’. This includes all transfers of functions involving other bodies within the Department of Health’s Resource Accounting Boundary and transfers of functions involving local government bodies.
- 3.46. Very rarely, an NHS foundation trust may need to account for a machinery of government change as a “transfer by merger” if the transfer with the other body is one that meets the criteria for merger accounting in the *FReM*. The *FReM* also describes the required accounting in such cases.

## Transfer by absorption

- 3.47. Where an NHS foundation trust is the recipient in the transfer of a function, it recognises the assets and liabilities received as at the date of transfer. The assets and liabilities are not adjusted to fair value prior to recognition. The corresponding net credit / debit reflecting the gain / loss is recognised within income / expenses, but outside of operating activities.
- 3.48. The pre-transfer income, expenses, assets and liabilities of the NHS foundation trust are not adjusted to include any pre-transfer activity of the function.
- 3.49. For property plant and equipment assets and intangible assets, the Cost and Accumulated Depreciation / Amortisation amounts from the transferring entity's accounts are preserved when the assets are recognised in the NHS foundation trust's accounts.
- 3.50. Where any assets received had an attributable revaluation reserve balance in the transferring entity's accounts, this is preserved in the NHS foundation trust's accounts by it transferring the relevant amount from its income and expenditure reserve to its revaluation reserve.

### Example:

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

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

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

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

- 3.52. Where, instead the NHS foundation trust is the body relinquishing the function, the opposite accounting entries apply. It de-recognises the assets and liabilities as at the date of transfer and recognises the corresponding net debit / credit as a loss / gain in expenses / income but not within operating activities. Any revaluation reserve balances attributable to the assets transferred are removed from the revaluation reserve and transferred to the income and expenditure reserve.
- 3.53. The pre-transfer activities of the function remain in the NHS foundation trust's accounts. The only adjustments made are in respect of the assets and liabilities actually transferring, as described above.
- 3.54. Where the divesting body is an NHS trust or NHS foundation trust, and its services are transferred to one or more receiving bodies, Public Dividend Capital (PDC) may also transfer and will be specified in the legal documentation. Where this is the case the total value of PDC transferring to receiving entities will normally be the lower of net assets transferring and the existing PDC reserve balance in the divesting body. Where net assets exceed the existing PDC balance, legal documentation will determine the basis of the allocation of PDC between the multiple receiving bodies, and the Secretary of State will subsequently determine the values of PDC transferred. Where the value of PDC in the divesting body exceeds the value of net assets transferring, the excess will be retained by the divesting trust in its closing balance sheet and the Department of Health will usually then apply to HM Treasury for this excess to be subsequently written off. When a PDC balance is transferred to a receiving body, PDC will be recognised by the receiving body by transferring the relevant amount from its income and expenditure reserve to its PDC reserve.

Example:

During the financial year, two NHS foundation trusts merge such that all services and net assets from NHS Foundation Trust A are transferred to NHS Foundation Trust B. The transfer occurs on 1 June and the net assets received by NHS Foundation Trust B are £210m with an associated revaluation reserve of £30m. The PDC balance in NHS Foundation Trust A immediately prior to transfer is £250m. £210m of PDC is transferred to NHS Foundation Trust B.

NHS Foundation Trust B first recognises the receipt of net assets and records the gain in non-operating income and expenditure.

Dr Net assets	£210m
Cr I&E (absorption gain)	£210m

The revaluation reserve is then recreated in NHS Foundation Trust B.

Dr I&E reserve	£30m
Cr Revaluation reserve	£30m

PDC is then recognised in NHS Foundation Trust B at £210m (the lower of net assets and the existing PDC balance as set out in the transfer order).

Dr I&E reserve	£210m
Cr PDC reserve	£210m

NHS Foundation Trust A mirrors the transfer between PDC reserve and I&E reserve but retains the excess £40m PDC balance. The closing balance sheet of NHS Foundation Trust A reported in year-end consolidation schedules (after the 1 June transfer) will contain only PDC reserve of £40m and an I&E reserve of (£40m).

3.55. Where control of a charitable fund passes to the foundation trust (i.e. the demising trust's charitable fund is transferred to the foundation trust through a change of corporate trustee) and this meets the definition of control for the NHS foundation trust, the group accounts prepared by the NHS foundation trust may need to record a modified absorption accounting gain or loss and there is no prior year restatement. This ensures that a consistent policy of absorption accounting is applied within the NHS foundation trust's own group. Where the funds of a demising charity are transferred into the funds of the foundation trust's existing charity, this will be recorded as incoming resources (or charitable expenditure where net liabilities transfer) in the underlying charity's accounts before consolidation into the foundation trust group.

## Disclosures

3.56. The NHS foundation trust receiving/divesting the transfer of functions (or assets relating to a previous transfer of functions) discloses:

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



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

**Acquisition of a business from outside of the WGA boundary**

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

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

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

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

#### Accounting policies and other information

**Monitor is responsible for issuing an accounts direction to NHS foundation trusts under the NHS Act 2006.** Monitor has directed that the financial statements of NHS foundation trusts shall meet the accounting requirements of the *FT ARM* which shall be agreed with **the Secretary of State**. Consequently, the following financial statements have been prepared in accordance with the *FT ARM 2015/16* issued by Monitor. The accounting policies contained in that manual follow IFRS and HM Treasury's *FReM* to the extent that they are meaningful and appropriate to NHS foundation trusts. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

#### Accounting convention

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

#### 1 Consolidation

##### [NHS Charitable Fund]

The NHS foundation trust is the corporate trustee to [xxxx] NHS charitable fund. The foundation trust has assessed its relationship to the charitable fund and determined it to be a subsidiary because the foundation trust is exposed to, or has rights to, variable returns and other benefits for itself, patients and staff from its involvement with the charitable fund and has the ability to affect those returns and other benefits through its power over the fund.

The charitable fund's statutory accounts are prepared to 31 March in accordance with the UK Charities Statement of Recommended Practice (SORP) which is based on UK **Financial Reporting Standard (FRS) 102**. On consolidation, necessary adjustments are made to the charity's assets,

liabilities and transactions to:

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

[Provide details on charity's key accounting policies, for example in relation to its funds, if material.] ]

### **[Other subsidiaries**

Subsidiary entities are those over which the trust is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The income, expenses, assets, liabilities, equity and reserves of subsidiaries are consolidated in full into the appropriate financial statement lines. The capital and reserves attributable to non-controlling interests are included as a separate item in the Statement of Financial Position.

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

Where subsidiaries' accounting policies are not aligned with those of the trust (including where they report under UK **FRS 102**) then amounts are adjusted during consolidation where the differences are material. Inter-entity balances, transactions and gains/losses are eliminated in full on consolidation.

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

### **[Associates**

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

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

## **[Joint ventures**

Joint ventures are arrangements in which the trust has joint control with one or more other parties, and where it has the rights to the net assets of the arrangement.

Joint ventures are accounted for using the equity method. ]

## **[Joint operations**

Joint operations are arrangements in which the trust has joint control with one or more other parties and has the rights to the assets, and obligations for the liabilities, relating to the arrangement. The trust includes within its financial statements its share of the assets, liabilities, income and expenses.]

## **2 Income**

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

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

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

## **3 Expenditure on employee benefits**

### **Short-term employee benefits**

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

### **Pension costs**

#### *NHS Pension Scheme*

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

Employer's pension cost contributions are charged to operating expenses as and when they become due.

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

#### *[Local Government Pension Scheme*

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

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

#### **4 Expenditure on other goods and services**

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

#### **5 Property, plant and equipment**

##### ***Recognition***

Property, plant and equipment is capitalised where:

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

[Add additional local features, eg capitalisation threshold, grouping of

assets].

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

## **Measurement**

### *Valuation*

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

All assets are measured subsequently at **valuation**. [Details are needed of the bases of determining the fair value **or current value in existing use** for different asset types and the methods the FT uses to ensure that the carrying values reflect fair value **or current value in existing use**.] **An item of property, plant and equipment which is surplus with no plan to bring it back into use is valued at fair value under IFRS 13, if it does not meet the requirements of IAS 40 of IFRS 5.**

### *Subsequent expenditure*

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

### *Depreciation*

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

Property, plant and equipment which has been reclassified as 'held for sale' ceases to be depreciated upon the reclassification. Assets in the course of

construction and residual interests in off-Statement of Financial Position PFI contract assets are not depreciated until the asset is brought into use or reverts to the trust, respectively.

### *Revaluation gains and losses*

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

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

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

### *Impairments*

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

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

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

### *De-recognition*

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

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

Following reclassification, the assets are measured at the lower of their existing carrying amount and their 'fair value less costs to sell'.

Depreciation ceases to be charged. Assets are de-recognised when all material sale contract conditions have been met.

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

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

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

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

### ***Private Finance Initiative (PFI) transactions***

PFI transactions which meet the IFRIC 12 definition of a service concession, as interpreted in HM Treasury's *FReM*, are accounted for as 'on-Statement of Financial Position' by the trust. In accordance with IAS 17, the underlying assets are recognised as property, plant and equipment, together with an equivalent finance lease liability. Subsequently, the assets are accounted for as property, plant and equipment and/or intangible assets as



appropriate.

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

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

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

## **6 Intangible assets**

### *Recognition*

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

### *Internally generated intangible assets*

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

Expenditure on research is not capitalised.

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

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

## Software

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

## Measurement

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

Subsequently intangible assets are measured at **current value in existing use. Where no active market exists, intangible assets are valued at the lower of depreciated replacement cost and the value in use where the asset is income generating.** Revaluations gains and losses and impairments are treated in the same manner as for property, plant and equipment. **An intangible asset which is surplus with no plan to bring it back into use is valued at fair value under IFRS 13, if it does not meet the requirements of IAS 40 of IFRS 5.**

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

## Amortisation

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

## 7 Revenue government and other grants

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

## 8 Inventories

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

## 9 Financial instruments and financial liabilities

### Recognition

Financial assets and financial liabilities which arise from contracts for the

purchase or sale of non-financial items (such as goods or services), which are entered into in accordance with the trust's normal purchase, sale or usage requirements, are recognised when, and to the extent which, performance occurs, ie, when receipt or delivery of the goods or services is made.

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

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

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

### ***De-recognition***

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

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

### ***Classification and measurement***

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

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

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

Financial assets and financial liabilities at "fair value through income and expenditure" are financial assets or financial liabilities held for trading. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges.

[Derivatives which are embedded in other contracts but which are not "closely-related" to those contracts are separated-out from those contracts and measured in this category. Assets and liabilities in this category are classified as current assets and current liabilities.

These financial assets and financial liabilities are recognised initially at fair value, with transaction costs expensed in the income and expenditure

account. Subsequent movements in the fair value are recognised as gains or losses in the Statement of Comprehensive Income.]

### ***Loans and receivables***

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

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

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

Interest on loans and receivables is calculated using the effective interest method and credited to the Statement of Comprehensive Income. ***[Loans from the Department of Health are not held for trading and are measured at historic cost with any unpaid interest accrued separately.]***

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

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

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

### ***[Other] financial liabilities***

All [other] financial liabilities are recognised initially at fair value, net of transaction costs incurred, and measured subsequently at amortised cost using the effective interest method. The effective interest rate is the rate that

discounts exactly estimated future cash payments through the expected life of the financial liability or, when appropriate, a shorter period, to the net carrying amount of the financial liability.

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

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

### ***[Determination of fair value***

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

### **Impairment of financial assets**

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

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

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

## **10 Leases**

### ***Finance leases***

Where substantially all risks and rewards of ownership of a leased asset are

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

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

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

### ***Operating leases***

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

### ***Leases of land and buildings***

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

## **11 Provisions**

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

### ***Clinical negligence costs***

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the NHS foundation trust pays an annual contribution to the NHSLA, which, in return, settles all clinical negligence claims. Although the NHSLA is administratively responsible for all clinical negligence cases, the legal liability remains with the NHS foundation trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the NHS

foundation trust is disclosed at note XX but is not recognised in the NHS foundation trust's accounts.

### ***Non-clinical risk pooling***

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

## **12 Contingencies**

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

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

Contingent liabilities are defined as:

- possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or
- present obligations arising from past events but for which it is not probable that a transfer of economic benefits will arise or for which the amount of the obligation cannot be measured with sufficient reliability.

## **13 Public dividend capital**

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

A charge, reflecting the cost of capital utilised by the NHS foundation trust, is payable as public dividend capital dividend. The charge is calculated at the rate set by HM Treasury (currently 3.5%) on the average relevant net assets of the NHS foundation trust during the financial year. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for (i) donated assets (including lottery funded assets), (ii) average daily cash balances held with the Government Banking Services (GBS) and National Loans Fund (NLF) deposits, excluding cash balances held in GBS accounts that relate to a short-term working capital facility, and (iii) any PDC

dividend balance receivable or payable. In accordance with the requirements laid down by the Department of Health (as the issuer of PDC), the dividend for the year is calculated on the actual average relevant net assets as set out in the “pre-audit” version of the annual accounts. The dividend thus calculated is not revised should any adjustment to net assets occur as a result the audit of the annual accounts.

#### **14 Value added tax**

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

#### **15 Corporation tax**

[This note should disclose:

- the basis of the charge for taxation
- the policy adopted for providing for deferred taxation and
- the policy adopted regarding discounting.

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

#### **16 Foreign exchange**

The functional and presentational currencies of the trust are sterling.

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

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

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



determined.

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

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

## **17 Third party assets**

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

## **18 Losses and special payments**

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

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

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

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

For property plant and equipment assets and intangible assets, the cost and accumulated depreciation / amortisation balances from the transferring entity's accounts are preserved on recognition in the trust's accounts. Where the transferring body recognised revaluation reserve balances

attributable to the assets, the trust makes a transfer from its income and expenditure reserve to its revaluation reserve to maintain transparency within public sector accounts.

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

## 4. Statement of Comprehensive Income and notes

- 4.1. IAS 1 'Presentation of Financial Statements' requires the preparation of a Statement of Comprehensive Income. In the interest of consistency across the NHS foundation trust sector, Monitor has withdrawn an option in IAS 1 to present this information as two separate statements.
- 4.2. The standard does not prescribe the structure of the statement, but simply sets out the items which must be disclosed on the face of the statement. Other comprehensive income should be analysed between (a) amounts that will not be reclassified subsequently to income and expenditure (eg revaluations of property, plant and equipment); and (b) amounts that will subsequently be reclassified to income and expenditure (eg movements in the fair value of available-for-sale financial assets).
- 4.3. Generally, income and expenditure should be recorded gross and not netted off. The exception to this is where a member of staff is employed jointly by the NHS foundation trust and another NHS body then only the element of the salary relating to the NHS foundation trust should be recorded as expenditure. Where net accounting for recharges is applied, it must reflect the principles of IAS 18. Each circumstance will need to be assessed individually against the relevant accounting standards and the treatment must be agreed with the counterparty to the transaction. The default is for all transactions to be treated gross.
- 4.4. Where an NHS foundation trust works with another NHS body on an agency basis, for example, processing invoices or managing a lease car scheme, then the transactions it processes on behalf of the other body do not need to be reflected in the NHS foundation trust accounts.

Where the NHS foundation trust is paid for providing the service then

that payment should be reflected in its accounts.

## **Income**

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

### **Income from activities**

- 4.6. Income should be classified as income from activities when it is earned under contracts with NHS bodies and others for the provision of patient-related healthcare services. Income from non-patient-care services should be classified as 'other operating income'. Income arising from the activities of subsidiaries consolidated into the accounts of the NHS foundation trust should be classified on the same basis, regardless of how it is classified in the accounts of the subsidiary.
- 4.7. Where 'other income' is material, additional disclosure should be made in the accounts as to its source. Even where 'other income' is not material for the foundation trust, the FTC may require additional analysis, as it may include items that are material for the sector as a whole.

### *Partially completed spells*

- 4.8. NHS foundation trusts enter into contracts for services based on a model contract. The suggested contract is three years in length but actual contracts could be longer or shorter. The key elements of the model contract are that:
- the NHS foundation trust has to provide the service or services needed by each patient who is referred, or presents, to the provider for healthcare or treatment in accordance with the contract
  - the NHS foundation trust can only refuse to treat patients in limited circumstances based on clinical needs or patient behaviour
  - even when treatment is refused the NHS foundation trust will be paid for activity undertaken up to the point that the treatment is refused and the patient discharged unless and to the extent that such an activity requires rectification by another provider and
  - the commissioner will pay the NHS foundation trust for activity delivered based on prices set out in the contract.
- 4.9. Therefore, if the NHS foundation trust can demonstrate that it is certain to receive the income for a treatment or spell once the patient is

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

- 4.10. NHS foundation trusts should examine the terms of the contracts that they have entered into to determine exactly how revenue should be recognised in accordance with IAS 18.
- 4.11. Separate guidance has been issued to commissioners and providers on how to account for payments under the maternity pathway. This guidance is available [here](#).<sup>5</sup>

#### **Intra-NHS agreement of balances**

- 4.12. NHS foundation trusts are required to participate in the NHS-wide agreement of balances exercise.
- 4.13. NHS foundation trust should refer to the *Supplementary Guide to Agreement of Balances* issued jointly by the Department of Health, Monitor, NHS Trust Development Authority and NHS England for additional guidance on how this exercise should be conducted. The guidance document is updated 2-3 times per year and is available at [www.gov.uk/monitor/accountsprocess](http://www.gov.uk/monitor/accountsprocess).
- 4.14. The overarching principles that organisations must apply are:
- transactions that are of a trading nature are to be shown gross by both parties
  - where an organisation acts solely as an agent as defined by IAS 18 and is not exposed to significant risks and rewards associated with the transaction, it would be appropriate to treat the item as a recharge and net off the income against the expenditure
  - recharges of staff costs should be accounted for in accordance with paragraph 4.2
  - where the amounts involve estimates, both parties should agree

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<sup>5</sup> [https://whitehall-admin.production.alpha.gov.co.uk/government/uploads/system/uploads/attachment\\_data/file/295218/Maternity\\_pathways\\_accounting\\_140314.pdf](https://whitehall-admin.production.alpha.gov.co.uk/government/uploads/system/uploads/attachment_data/file/295218/Maternity_pathways_accounting_140314.pdf)

an approach to the estimation, eg partially completed patient spells; non-contracted activity; contract penalties and

- each circumstance will need to be assessed individually and treatment must be agreed between parties. The default is for all transactions to be treated gross.

4.15. The Better Care Fund may lead to a greater number of transactions where the principal and agent parties in the transaction will need to be identified and applied consistently by all parties to the transaction. Further guidance on the Better Care Fund is provided in the *Department of Health Group Manual of Accounts 2015/16*.

### **Government grants (IAS 20)**

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

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

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

4.17. A grant for an asset may be received subject to a condition that it is to be returned to the grantor if a specified future event does or does not occur. For example, a grant may need to be returned if the foundation trust ceases to use the asset purchased with that grant for a purpose specified by the grantor. In these cases, a return obligation does not arise until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such a condition would not therefore require the grant to be treated as deferred.

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

4.19. Where the NHS foundation trust is a member of the EU Greenhouse Gas Emission Allowance Trading scheme and it has been issued allowances at less than fair value **or current value in existing use**

then the difference between the amount paid and the fair value **or current value in existing use** represents a government grant that is subject to a condition, as per the interpretation of IAS 20. The income element should be deferred and released to income as the liability to emit greenhouse gases is recognised in expenses.

## **Donations**

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

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

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

## **Overseas visitors**

4.22. The notes to the accounts should contain disclosure of:

- income from overseas visitors (where the patient is charged directly by the trust)
- cash payments received in year (relating to invoices raised in the current and prior years)
- amounts added to the provision for impairment of receivables (relating to invoices raised in the current and prior years) and
- amounts written off in-year (relating to invoices raised in the current and prior years).

It is up to the NHS foundation trust’s discretion where these numbers are disclosed within the notes to the accounts.

Due to ministerial interest in this area, this disclosure (all four numbers) should be included in the foundation trust’s accounts where income from overseas visitors (where the patient is charged directly by the trust) exceeds £100,000 in the year. Foundation trusts with overseas visitors income below this level are encouraged to include the disclosure in their accounts but this is not mandatory.

## Operating expenses

### Analysis of operating expenses

- 4.23. IAS 1 requires an analysis of operating expenses to be disclosed on either the face of the Statement of Comprehensive Income or in a note to the accounts. **Monitor requires this analysis be presented in a note to the accounts.** This analysis should reflect the nature of the expenditure, eg, employment costs, supplies and services. **If** management considers that an analysis by function is more relevant, they may include such disclosure **in an additional note to the accounts.**
- 4.24. Consideration should also be given to the analysis required for the FTC. In some cases, it will be necessary to report non-material items in the FTC as they may be material in aggregate for the foundation trust sector. For example, further analysis of 'other operating expenses' will be required. **Fees payable to the external auditor should be analysed between audit services and other services as required by paragraph 6.8. The analysis of operating expenditure must also include a separate row recording internal audit expenditure. This relates to spend on internal audit services, and may be provided in-house or by a third party.**
- 4.25. **The analysis of operating expenses should also include expenditure on consultancy. Annex 1 to chapter 4 of this Manual provides a definition of 'consultancy' expenditure.**

### Employee benefits expense

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

### Retirement benefits

- 4.27. NHS foundation trusts should account for retirement benefits in accordance with IAS 19 (Revised 2011). Table 6.2: IAS 19 of the FReM requires foundation trusts to account for the NHS Pension Scheme as a defined contribution scheme. NHS foundation trusts should therefore recognise an expense equal to their employer contribution to the scheme during the year.
- 4.28. Where NHS foundation trusts are members of other defined benefit schemes, they will need to assess whether these schemes should be accounted for as defined benefit schemes or as defined contribution schemes.



4.29. Where defined benefit schemes have a minimum funding requirement, this may affect the amount of any net asset which the NHS foundation trust can recognise when the scheme is in surplus. IFRIC 14 provides guidance on any adjustments required to the asset in these circumstances.

### **Termination benefits**

4.30. Termination benefits include, for example, redundancy costs, termination gratuities and pension enhancements on termination. Termination benefits are only those where the event giving rise to the benefit is the termination of the employment by (a) the employer; or (b) an employee deciding to accept the employer's offer of benefits in exchange for termination. Benefits that are conditional on future service by an employee are not termination benefits.

4.31. Termination benefits are recognised at the earlier of:

- a) when the trust can no longer withdraw the offer of those benefits and
- b) when the trust recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

### **PDC dividends payable**

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

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

4.34. The calculation of relevant net assets is as follows:

Total public dividend capital and reserves	X
Less: Net book value of donated assets and lottery-funded assets	(X)
Plus: The value of any deferred income balance that funds a donated asset or lottery-funded asset*	X
Less: Charitable funds (before any consolidation adjustments for charitable funds)	(X)
Less: Net cash balances in GBS accounts	

(excluding cash balances in GBS accounts that relate to a short-term working capital facility)	(X)
Less/add: PDC Dividend receivable/payable	<u>(X)</u>
	X
	==

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

4.35. The adjustment to net relevant assets calculation in respect of the GBS must be calculated on the basis of average daily cleared balances. In practice therefore, GBS values are not deducted from 1 April and 31 March net relevant assets calculations as spot values at those dates. Rather, average net relevant assets including GBS for the year is calculated, and then the average daily cleared GBS balances deducted from that figure to arrive at the relevant net assets amount for the calculation of the dividend. National Loans Fund deposits are considered to be analogous to GBS balances for the calculation of relevant net assets and should also be calculated on an average daily basis.

4.36. An example of the calculation is set out below.

Example calculation:

	£'000
Opening capital and reserves (including GBS and NLF balances and prior to consolidation of charitable funds)	123,000
Less: Opening donated asset net book value	<u>(3,000)</u>
Opening relevant net assets [A]	120,000
Closing capital and reserves (including GBS and NLF balances and prior to consolidation of charitable funds)	128,500
Less: Closing donated asset net book value	<u>(2,500)</u>
Closing relevant net assets [B]	126,000
Average relevant net assets (including GBS and NLF) [(A+B)/2]=[C]	123,000
Less: Average daily cleared/available GBS balances and NLF deposits over the year [D]	(7,500)
Average relevant net assets for PDC dividend calculation [C-D]=[E]	115,500
PDC dividend payable [E*3.5%]	4,043

## Notes to the Statement of Comprehensive Income

### Operating segments (IFRS 8)

- 4.37. IFRS 8 requires disclosures of the results of significant operating segments.
- 4.38. The standard uses revenues as the principal measure of the relative size of individual activities. However, NHS foundation trusts may not allocate income to individual activities for the purposes of internal performance reporting, choosing instead to report expenditure by activity and reporting income only for the entity as a whole.
- 4.39. Where income is not allocated consistently to individual activities for internal reporting to the Chief Operating Decision Maker (CODM) NHS foundation trusts should determine which operating segments are reportable by reference to the operating expenses of the segment and the total operating expenses of the trust.

### Disclosures

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

### Discontinued operations

- 4.41. NHS foundation trusts should review their activities against IFRS 5 to determine whether any activities meet the definition of a discontinued operation, and if so, to reclassify it as such and measure and disclose it accordance with that standard.
- 4.42. Following the requirements of the *FReM*, activities that are transferred to other bodies within the boundary of Whole of Government Accounts are 'machinery of government changes'. They should therefore be treated as continuing operations, and in the financial year of disposal should be removed from the accounts in accordance with paragraph 3.43 of this manual.

- 4.43. Discontinued operations can only occur therefore, in respect of activities that genuinely cease without transferring to another entity, or which transfer to an entity outside the boundary of WGA, such as the private or voluntary sectors.

### **Analysis of income**

- 4.44. In accordance with the requirements of paragraph 5.4.22 of the *FReM*, NHS foundation trusts should provide in a note to the accounts an analysis of income, together with commentary where appropriate, that enables users of the accounts to understand the nature of the NHS foundation trust's income.

### **Income from activities arising from commissioner requested services and all other services**

- 4.45. Within this analysis of income, NHS foundation trusts should also disclose both the level of income from activities that has arisen from commissioner requested and non-commissioner requested services (as set out in the NHS foundation trust's Provider Licence and available on Monitor's [NHS Foundation Trust Directory](#)). This analysis should add up to the total income from activities set out on the face of the Statement of Comprehensive Income.
- 4.46. Where an NHS foundation trust has been placed in Trust Special Administration, substitute 'Commissioner Requested' with 'Location Specific'.

### **Directors' remuneration and other benefits**

- 4.47. In addition to the Remuneration Report, the Companies Act 2006 ('Companies Act') requires disclosure, in a note to the accounts, of the aggregate of remuneration and other benefits receivable by directors during the financial year. This information is required even where entities prepare a Remuneration Report, although in such cases the disclosure requirements in the accounts are correspondingly fewer.
- 4.48. The requirements for disclosing directors' remuneration are set out in section 412 of the Companies Act and in Regulation 8 and Schedule 5 to the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). In summary, the disclosures comprise the aggregate amounts of each of the following:
- Directors' remuneration
  - Gains made by directors on the exercise of share options (not likely to apply but could theoretically apply in respect of any subsidiary companies of an NHS foundation trust)

- Money paid and the net value of assets (other than money and share options) receivable by directors, under long term incentive schemes (again not likely to be relevant to an NHS foundation trust)
- Employer contributions to a pension scheme in respect of directors and
- The total number of directors to whom benefits are accruing under:
  - money purchase schemes
  - defined benefit schemes.

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

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

and

- Guarantees of any kind entered into on behalf of the directors of the NHS foundation trust by the trust (or any subsidiary undertaking):
  - the main terms of the guarantee
  - the amount of the maximum liability that maybe incurred by guarantor entity and
  - any amount paid and any liability incurred by the guarantor for the purpose of fulfilling the guarantee.
- The aggregate of:
  - all advances
  - all repayments of advances
  - the maximum liabilities under guarantees and
  - amounts paid under such guarantees.

4.50. These disclosures apply to any advance or guarantee existing at any time during the financial year, regardless of when it was entered into, whether the individual concerned was a director at the time it was

entered into and, if by a subsidiary, regardless of whether the entity was a subsidiary at the time it was entered into.

### **Staff costs**

4.51. This disclosure is required by section 411 **(5)** of the Companies Act 2006. Staff costs are interpreted by the ARM to include:

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

***Where expenditure on agency/contract staff is material, this should be separately disclosed. NHS foundation trusts should note that the format of the employee expenses note in the FTC includes separate disclosure of agency/contract staff expenditure.***

4.52. This note should make the following disclosures in relation to staff costs:

- salaries and wages
- social security costs
- employer contribution to NHS Pensions and
- other pension costs.

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

### **Ill-health retirements**

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

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

4.55. NHS foundation trusts should provide the following IAS 19 (Revised) disclosures in relation to multi-employer defined benefit schemes which are accounted for as a defined contribution scheme, such as the NHS pension scheme:

- a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements
- a description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan
- the fact that the plan is a defined benefit plan
- the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan
- the expected contributions to the plan for the next annual reporting period and
- information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.

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

- information on the basis of the scheme, valuations of the scheme and the scheme provisions will be provided later in the year. Preparers should check [www.gov.uk/monitor/accountsprocess](http://www.gov.uk/monitor/accountsprocess) for the latest information
- scheme valuations are available [here](#) and



- information about contributions is available on the NHS Business Services Authority website.

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

- 4.57. Where land and buildings assets used in the provision of Commissioner Requested Services have been disposed of during the year, a narrative disclosure is required. This should include the net book value of the asset; the amount of any sale proceeds or other consideration receivable; and an explanation of the means by which the NHS foundation trust will continue to meet its obligations to provide Commissioner Requested Services. This might include details of replacement assets, use of under-utilised existing assets or leasing arrangements.
- 4.58. Where an NHS foundation trust has been placed in Trust Special Administration, substitute 'Commissioner Requested' with 'Location Specific'.

## Annex 1 to Chapter 4: Definition of consultancy expenditure

The contents of this annex is extracted from chapter 4 annex 5 of the Department of Health's Manual for Accounts 2015/16.

### Definition of 'consultancy' expenditure

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 entity'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.

# 5. Statement of Financial Position and notes

## Format of the Statement of Financial Position

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

## Property, plant and equipment (IAS 16)

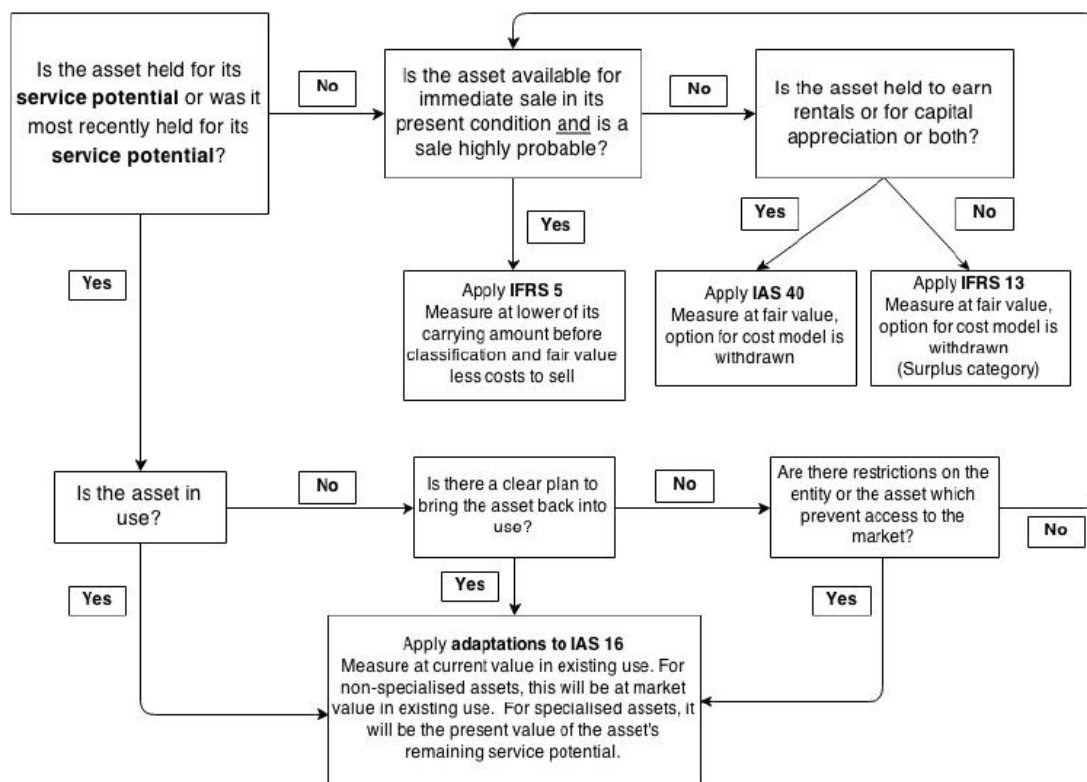
- 5.2. Following recognition, for subsequent measurement of property assets, NHS foundation trusts must follow the Revaluation Model in IAS 16. The Cost Approach for subsequent measurement in the standard is not permitted. For an asset that is newly acquired or constructed, a formal revaluation should only be necessary if there is an indication that the initial cost is significantly different to its **valuation under the terms of this manual**. Otherwise, the asset should only be re-valued on the next occasion when all assets of that class are re-valued.
- 5.3. ***From 2015/16 IFRS 13 Fair Value is adopted in full; however, IAS 16 and IAS 38 have been adapted and interpreted for the public sector context which limits the circumstances in which a valuation is prepared under IFRS 13.***
- 5.4. ***Assets which are held for their service potential and are in use (i.e. operational assets used to deliver either front line services or back office functions) should be measured at their current value in existing use.***
- 5.5. ***For specialised assets current value in existing use should be interpreted as the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of***

**replacing that service potential.** Where the **current value in existing use** is to be determined using a Depreciated Replacement Cost (DRC), **this should normally be on the basis of a modern equivalent asset. NHS foundation trusts should have regard to the interpretations in paragraph 7.1.10 of the FReM.**

- 5.6. In accordance with the adaptation of IAS 16 in Table 6.2: IAS 16 of the FReM, for non-specialised property assets in operational use, **current value in existing use should be interpreted as market value for existing use which is defined in the RICS Red Book as Existing Use Value (EUV).**
- 5.7. **Assets which were most recently held for their service potential but are surplus should be valued at current value in existing use, if there are restrictions on the entity or the asset which would prevent access to the market at the reporting date. If the entity could access the market then the surplus asset should be valued at fair value using IFRS 13.**
- 5.8. **In determining whether such an asset which is not in use is surplus, management should assess whether there is a clear plan to bring the asset back into future use as an operational asset. Where there is a clear plan, the asset is not surplus and the current value in existing use should be maintained. Otherwise, the asset should be assessed as being surplus and valued under IFRS 13.**
- 5.9. **Assets which 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.**
- 5.10. **Where an asset is not being used to deliver services and there is no plan to bring it back into use, with no restrictions on sale, and it does not meet the IAS 40 and IFRS5 criteria, these assets are surplus and should be valued at fair value using IFRS 13.**

5.11. *In summary:*

<b>Asset</b>	<b>Previous treatment</b>	<b>Treatment from 2015/16</b>
<b>Asset held for its service potential: in use</b>	<p><b>Current value in existing use</b></p> <p><b>For non-specialised assets this means Existing Use Value (EUV)</b></p> <p><b>For specialised assets this usually means depreciated replacement cost on a modern equivalent asset basis.</b></p>	<p><b>Current value in existing use</b></p> <p><b>For non-specialised assets this means Existing Use Value (EUV)</b></p> <p><b>For specialised assets this usually means depreciated replacement cost on a modern equivalent asset basis.)</b></p>
<b>Asset held for its service potential: surplus but restrictions on its sale</b>	<b>Current value in existing use</b>	<b>Current value in existing use</b>
<b>Asset held for its service potential: surplus and no restrictions on its sale</b>	<b>Market value in existing use</b>	<b>Fair value (highest and best use) (IFRS 13)</b>
<b>Assets not held for their service potential: Investment property</b>	<b>Fair value (highest and best use) (IAS 40)</b>	<b>Fair value (highest and best use) (IAS 40 / IFRS 13)</b>
<b>Assets not held for their service potential: Held for Sale</b>	<b>Lower of carrying amount and fair value less costs to sell (IFRS 5)</b>	<b>Lower of carrying amount and fair value less costs to sell (IFRS 5)</b>
<b>Assets not held for their service potential: Surplus</b>	-	<b>Fair value (highest and best use) (IFRS 13)</b>



### Non-property assets

5.12. In accordance with paragraph **7.1.14** of the *FReM*, NHS foundation trusts may adopt a depreciated historical cost basis as a proxy for **current value in existing use or** fair value in respect of assets which have short useful lives or low values (or both). For depreciated historical cost to be considered as a proxy for **current value in existing use or** fair value, the useful life must be a realistic reflection of the life of the asset and the depreciation method used must provide a realistic reflection of the consumption of that asset. Where such a basis is not used, assets should be carried at fair value **or current value in existing use** and NHS foundation trusts should value them using the most appropriate valuation methodology available.

### Revaluations

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

are likely to require revaluation at least every 5 years.

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

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

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

5.16. Where a revaluation results in a reduction in an asset's value, this reduction should be charged initially to the revaluation reserve to the extent that there is an available balance in respect of the asset, and thereafter it should be charged to operating expenses. Negative revaluation reserve balances for individual assets are not permitted. ***NHS foundation trusts should also refer to the requirements for impairment accounting set out from paragraph 5.34 below.***

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

Details of the PP&E asset before revaluation:

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



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The asset is re-valued to £1,500

Details of the PP&E asset after revaluation

	£
PP&E asset at cost/valuation	1,000
Gain on revaluation	500
PP&E asset at re-valued amount	1,500
Accumulated depreciation	400
Gain on revaluation	(400)
Depreciation after revaluation	Nil

***A revalued asset may attract further depreciation charges after the previous balance has been reset to zero at the date of revaluation, such that (depending on the date of revaluation) some cumulative depreciation may still be attached to the asset at the year end.***

#### **Capitalisation threshold of fixed assets: *de minimis* limits**

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

#### **Grouped assets**

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

- the items are functionally interdependent
- the items are acquired at about the same date and are planned for disposal at about the same date

- the items are under single managerial control and
- each individual asset thus grouped has a value of over £250.

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

#### *IT assets*

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

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

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

#### **Heritage assets**

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

It is not expected that NHS foundation trusts will hold such assets as this definition excludes assets which are held for operational purposes. Where an NHS foundation trust does hold a heritage asset then **FRS 102** must be followed.

#### **Intangible assets (IAS 38)**

5.24. Intangible assets can only be recognised if it is probable that future economic benefits will flow to, or service potential be provided to, the

NHS foundation trust and the cost of the asset can be measured reliably.

- 5.25. Intangible assets are initially measured at cost. NHS foundation trusts must measure them subsequently at a valuation – the cost model in IAS 38 is not permitted.
- 5.26. **Table 6.2 of the FReM sets out that the current value should be based on the market value in existing use. Where no active market exists, entities should revalue the asset, using indices or some suitable model, to the lower of amortised replacement cost and value in use where the asset is income generating. Where there is no value in use, the asset should be valued using depreciated replacement cost.**
- 5.27. **Guidance on revaluations in paragraphs 5.15 to 5.17 also applies to intangible assets.**

#### **EU Emission Allowance Trading Scheme**

- 5.28. Where NHS foundation trusts are members of the EU Greenhouse Gas Emission Allowance Trading Directive, the scheme gives rise to an asset for allowances held and a liability for the obligation to deliver allowances equal to the emissions that have been made. Allowances, whether allocated by government or purchased should be recognised as assets. Allowances intended to be held for use on a continuing basis should be classified as current or non-current intangible assets.
- 5.29. **Where there is evidence of an active market**, the allowance held for use should be shown valued at **current value in existing use** even when it is issued by government for less than **that value**. The intangible asset is written down at the year end to the extent that the NHS foundation trust has made emissions and used up its allowances. If allowances are traded then the NHS foundation trust could generate a loss or profit on disposal.
- 5.30. See also government grants and provisions for other accounting entries relating to this scheme.

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

- 5.31. Background to the CRC scheme and how to account for the obligation arising from energy usage can be found in paragraphs 5.75 to 5.77.
- 5.32. CRC allowances held for use by the NHS foundation trust are accounted for as intangible assets, and analysed in the Statement of Financial Position between current and non-current assets, as

appropriate. If the allowances are held for trading, then they are accounted for as current assets.

- 5.33. Where allowances are acquired for less than their **current value in existing use and there is evidence of an active market**, they should be measured on initial recognition at their **current value in existing use**, with the excess over the acquisition cost being recognised as income. If there is no evidence of an active market, then the allowances should be measured at cost, less impairment.

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

- 5.34. IAS 36 defines value in use as the present value of the future cash flows from the asset's continued use. However, it adds that, where a non-current asset is not held for the purpose of generating cash flows, an alternative measure of its service potential may be more relevant. HM Treasury has interpreted this for the public sector, stating that, the value in use of a non-cash-generating asset is the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential. (FReM Table 6.2: IAS 16)

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

- 5.35. In accordance with the requirements of the *FReM*, this manual adopts the following divergence from IAS 36.
- 5.36. Where an impairment loss arises from a clear consumption of economic benefits or service potential, the loss is recognised in operating expenses (FReM Table 6.2: IAS 36). Examples of such impairments include losses as a result of loss or damage; abandonment of projects; gold-plating; and use of the asset for a lower specification purpose (FReM paragraph 7.3.3).
- 5.37. However, to ensure that the foundation trust's reserves are in the same position as if IAS 36 applied, an amount should be transferred from the revaluation reserve to the income and expenditure reserve. This transfer is the lower of:
- (i) the amount of the impairment loss charged to expenses or
  - (ii) the balance on the revaluation reserve in respect of the asset.
- 5.38. An impairment that arose from a loss of economic benefits or service potential can be reversed if, and to the extent that, the circumstances

that gave rise to the loss subsequently reverse.

- 5.39. For the avoidance of doubt, an increase in an asset's **valuation** due to an increase in general market prices is a separate event and does not represent a reversal of a previous economic benefit/service potential impairment. It should therefore be accounted for as a revaluation gain rather than a reversal of a past economic benefit impairment.
- 5.40. Where an economic benefit/service potential impairment is reversed, the amount of the reversal recognised in income is limited to the amount that restores the asset's carrying value to that it would otherwise have had if the impairment not been recognised originally. This is because, for example, if the asset hadn't been impaired then depreciation based on the original asset value would have been charged to operating expenses in the intervening period, and therefore the impairment reversal needs to take this into account. Any remaining amount of the impairment reversal should be recognised in the revaluation reserve and reported as an item of other comprehensive income.
- 5.41. If, at the time of the original impairment, an amount was transferred from the revaluation reserve to the income and expenditure reserve, an amount must be transferred back to the revaluation reserve when the impairment is reversed to avoid overstating the income and expenditure reserve. The amount transferred back is that which will bring the respective reserves to the balances that they would have had if the impairment and impairment reversal had been treated as a revaluation loss and a revaluation gain in accordance with IAS 36.

### **Other impairments**

- 5.42. Other impairment losses, in accordance with IAS 36, are treated as revaluation losses, as described in the PP&E section above. Similarly reversals of such other impairments are treated as revaluation gains in accordance with IAS 36.
- 5.43. As land and buildings are reported separately in the notes to the Statement of Financial Position, impairments and revaluations need to be analysed between land and buildings, based on the valuer's analysis of the overall valuation of the property, and upward revaluations or impairments need to be recognised separately on land and on buildings.

### **Borrowing costs (IAS 23)**

- 5.44. IAS 23 requires borrowing costs incurred in connection with the

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

## **PFI schemes**

### **Accounting requirements**

- 5.45. To determine the appropriate accounting treatment of a PFI scheme, the NHS foundation trust should, in the first instance, determine whether the scheme falls within the scope of IFRIC 12 'Service Concession Arrangements'. A scheme will be within the IFRIC's scope where an infrastructure asset is constructed or acquired for the scheme, or is a pre-existing asset of the NHS foundation trust or of the operator and:
- the NHS foundation trust controls or regulates what services the operator must provide with the property, to whom it must provide them and at what price and
  - the NHS foundation trust controls – through beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement (in accordance with paragraph 6 of the IFRIC, where the residual interest is not significant because the property has been used for its entire useful life during the scheme, this second criteria should be ignored).
- 5.46. Practitioners should note that although IFRIC 12 only applies to service concession arrangements which involve a public service obligation, the *FReM* includes an interpretation which extends the scope of infrastructure assets to also include 'permanent installations for military etc. operations and non-current assets used for administrative purposes in delivering services to the public'. The *FReM* also extends the scope of the IFRIC to include assets that were previously owned by

the operator. This manual follows the *FReM* and also adopts these interpretations.

- 5.47. Where a scheme falls within the scope of IFRIC 12, the NHS foundation trust should recognise an asset of the infrastructure and a corresponding finance lease liability in accordance with IAS 17. Paragraph 7.1.49 of the *FReM* includes an adaptation of IAS 17 by requiring the asset and liability to be recognised when (a) it is probable that future economic benefits associated with the infrastructure asset will flow to the NHS foundation trust and (b) the cost of the asset can be measured reliably.
- 5.48. Subsequently the infrastructure asset is accounted for as property, plant and equipment and/or an intangible asset. The annual Unitary Payment should be separated between an amount for services and an amount for the property. The services element should be recognised in operating expenses to reflect the services received. The property element should be split between repayment of the financial liability and an annual finance charge calculated using the implicit interest rate in the scheme in accordance with the principles of IAS 17.
- 5.49. If the scheme does not fall within the scope of IFRIC 12, then the NHS foundation trust should consider whether the scheme is a lease in accordance with IAS 17 or is an arrangement which contains a lease as defined in IFRIC 4.

## Disclosures

- 5.50. The disclosures in SIC 29 'Service Concession Arrangements: Disclosures' should be provided for all schemes.
- 5.51. The following disclosures should also be made.
- a) The *FReM* requires, for 'off-balance sheet' service concessions, disclosure of the total payments to which the trust is committed for each of the following periods:
- not later than one year
  - later than one year and not later than five years and
  - later than five years.
- b) **The *FReM* requires**, for 'on-balance sheet' service concessions, disclosure of the trust's **total commitments** due:
- not later than one year
  - later than one year and not later than five years
  - later than five years and
  - less the interest element to give the present value of

obligations.

***The FReM also requires, for 'on-balance sheet' service concessions, disclosure of in year expenditure in respect of the service charges under PFI contracts (FReM 5.4.24). This requirement will be met by following Monitor's disclosure requirement in sub-paragraph (c) below.***

***In addition, IAS 17 continues to require disclosures in relation to the imputed finance lease element of the scheme.***

***c) Monitor requires, for 'on-balance sheet' service concessions, disclosure of the total unitary payment paid to the operator(s) in the year, on an accruals basis. This should be the amount paid over; any PFI support income should not be netted off. This can be for all schemes in total or individual schemes shown separately, at the foundation trust's discretion. Where relevant, any other amounts paid to the operator under the service concession contract should also be disclosed. The amount paid should also be broken down into:***

- ***interest charge***
- ***repayment of finance lease liability***
- ***service element***
- ***capital lifecycle costs***
- ***revenue lifecycle costs***
- ***contingent rent and***
- ***other amounts.***

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

- the nature and business purpose of the arrangements and
- the financial impact of the arrangements on the trust.

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

## **Leased assets (IAS 17)**

5.54. Under IAS 17, leases of property, plant and equipment are classified as



either finance leases or operating leases, according to their characteristics as set out in paragraphs 10 and 11 of the standard.

- 5.55. IFRIC 4 – ‘Determining whether an arrangement contains a lease’ requires other contracts to be examined to determine whether or not they contain a lease. For example, does a contract for services require the use of a specific underlying asset to which the recipient has exclusive use? Where such a lease is identified, the payments for it should be separated from the rest of the contract (using estimation techniques if necessary) and then accounted for as a finance or operating lease in accordance with IAS 17.
- 5.56. The assessment under IFRIC 4 should be done when the arrangement is first entered into, and should be re-assessed where the contract terms change or where the nature of the underlying asset changes.

### **Investment property (IAS 40)**

- 5.57. The accounting requirements for investment property are set out in IAS 40. Practitioners should note the following *FReM* interpretation, which is also adopted by this manual, in respect of identifying investment property. Only those assets which are held solely to generate a commercial return should be considered to be investment properties within the meaning of IAS 40. Where an asset is held, in part, to support service delivery objectives, then this should be considered to be an item of property, plant and equipment and should be accounted for in accordance with IAS 16, as described above. Indications that a property is not an investment property might include, for example, lessees being charged rentals at less than market value, or properties being under-used without any plan to alter their use, dispose of them or otherwise take steps to improve the return on the asset. IAS 40 states that properties occupied by employees, whether or not they pay rent at market rates, are not investment properties.
- 5.58. While few NHS foundation trusts may have investment properties, they may be found in subsidiaries and can often be held by NHS charitable funds. Thus if, and when, the charitable funds are consolidated into the accounts of the NHS foundation trust, then they will need to be accounted for in accordance with IAS 40 in the consolidated accounts.
- 5.59. Investment properties should be measured at fair value in the financial statements. The cost option in the standard is withdrawn. Changes in the fair value of the property should be recognised as revenue gains or losses.

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

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

### Public Dividend Capital

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

### Initial measurement at fair value

5.62. Financial assets and liabilities are initially measured at fair value (**as defined by IFRS 13**). Where future cash flows are discounted to measure fair value, NHS foundation trusts should use a market rate for similar instruments and similar entities (adjusted for credit risk where appropriate). However, in some instances, NHS foundation trusts may enter into loan arrangements with other parties where the loan's interest rate is nil or otherwise less than a market rate. In these instances, the fair value of the loan should be determined by reference to market rates. Such a market rate should reflect the credit risk of the loan recipient. Any difference arising between the transaction price and the fair value at initial recognition (the 'Day 1 gain or loss') should be recognised as a revenue gain or loss immediately. Such arrangements should be disclosed in the free text sheets of the FTC.

### Loans from the Department of Health

5.63. ***Under IAS 39 loans payable should normally be measured at amortised cost, using the effective interest method. This approach to valuing financial instruments is intended to reflect the value at which such instruments could be traded. In the case of loans from DH to NHS bodies, neither party is involved in trading its interest in the loan. Entities should therefore value their loan balances on the basis used by DH as the lender in order to ensure consistency of treatment and facilitate group level eliminations. This should equal the outstanding principle, valued at historic cost. Any unpaid interest at the reporting date should be recorded separately and not added to the carrying value of the loan.***

## NHS Injury Cost Recovery Scheme

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

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

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

## Provisions (IAS 37)

- 5.66. For presentation purposes in the Statement of Financial Position, all provisions need to be separated into current and non-current amounts.
- 5.67. Where the time value of money is material, future cash flows must be discounted. Except where noted otherwise below, all cash flows must be discounted using the short-; medium-; and/or long-term real discount rate(s) published by HM Treasury for the financial year. (Where cash flows are expressed in future prices, then the real discount rate(s) will need to be converted to nominal discount rate(s) before discounting the cash flows).
- 5.68. The short-term rate is to be used for discounting cash flows that are expected to occur up to 5 years after the date of the Statement of Financial Position. The medium-term rate is to be used for cash flows expected to occur after 5 years and up to 10 years after the date of the SOFP. The long-term rate is to be used for cash flows expected to occur beyond 10 years after the date of the SOFP. Where cash flows are expected to fall into more than one of the above time periods, then multiple discount rates will need to be used when calculating the carrying value of the provision.
- 5.69. The short- and medium-term real discount rates are revised annually by Treasury and set on 30 November of the relevant financial year. The long-term real discount rate is ***subject to potential revision for 2015/16 and will be published separately by Monitor at a later date.***

## **Clinical negligence claims**

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

## **Early retirement costs**

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

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

## **Injury benefits**

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

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

5.74. Where the NHS foundation trust is a member of the EU greenhouse

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

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

- 5.75. The CRC scheme is a mandatory cap and trade scheme for non-transport CO<sub>2</sub> emissions. Where NHS foundation trusts are registered with the CRC scheme, they are required to surrender to the government an allowance for every tonne of CO<sub>2</sub> they emit during the financial year. Therefore, registered NHS foundation trusts should recognise a liability (and related expense) in respect of this obligation as CO<sub>2</sub> emissions are made.
- 5.76. The carrying amount of the liability at 31 March will, therefore, reflect the CO<sub>2</sub> emissions that have been made during that financial year, less the allowances (if any) surrendered voluntarily during the financial year in respect of that financial year.
- 5.77. The liability will be measured at the amount expected to be incurred in settling the obligation. This will be the cost of the number of allowances/tonnes required to settle the obligation, being initially £12 per allowance/tonne.
- 5.78. Paragraphs 5.32 to 5.33 describe the accounting requirements for CRC allowances.

### **Taxpayers' equity**

#### **Public dividend capital**

- 5.79. The closing balance of public dividend capital will be confirmed by the Department of Health.

#### **Non-controlling interests**

- 5.80. IFRS 10 requires non-controlling interests in subsidiaries to be shown within taxpayers' equity, as a separate item.

## Notes to the Statement of Financial Position

### General disclosures

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

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

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

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

- 5.83. Separate disclosure is required, in the year an asset is acquired, of the **current value in existing use** of assets funded by government grant, donation or by lottery funding. Where the funder provides cash, rather than the physical assets, any difference between the cash provided and the **value** of the assets acquired should also be disclosed. (FReM 7.1.13)

### Property, plant and equipment: donated assets

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

## 6. Other statements and notes

### Statement of Changes in Taxpayers' Equity

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

### Statement of Cash Flows

- 6.2 In accordance with IAS 7, the face of the statement should analyse cash flows under the headings of Operating, Investing and Financing cash flows. There is no prescribed format.
- 6.3 The standard permits discretion as to where certain cash flows may be disclosed, depending on how an entity views them in relation to its activities. In order to ensure consistency of treatment, Monitor has considered where the following cash flows should be disclosed within the Statements of Cash Flows of NHS foundation trusts:
- Interest received on investments represents cash flows associated with investing activities and should be disclosed under that heading.
  - Cash flows in relation to the payment of interest, including the interest element of finance lease rentals, are associated with financing activities and should therefore be disclosed under that heading.
  - The payment of PDC dividend also represents a cash flow associated with financing activities and therefore should be disclosed under that heading.
- 6.4 NHS foundation trusts have the option of using either the direct or indirect method in their financial statements, but should note that the FTC forms use the indirect method and so the NHS foundation trust should ensure that it has the information in the format needed to complete these. The financing section of the cash flow statement must include the headings required in the FTC forms.

## Other notes to the accounts

### Third party assets

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

### Losses and special payments

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

- the total number and value of losses categorised between:
  - cash losses (including overpayments, physical losses, unvouched payments and theft)
  - fruitless payments and constructive losses
  - bad debts and claims abandoned (excluding cases between the FT and other NHS bodies) and
  - stores losses (including damage to buildings and other properties as a result of theft, criminal damage and neglect)
- the total number and value of special payments categorised between:
  - extra-contractual payments
  - extra-statutory and extra-regulatory payments
  - compensation payments
  - special severance payments and
  - ex gratia payments
- the number, value and a brief description of individual losses and special payment cases which exceed £300,000 should be disclosed, including those relating to clinical negligence, fraud, personal injury, compensation under legal obligation and fruitless payments
- a statement that these amounts are reported on an accruals basis but excluding provisions for future losses and
- any other explanation considered necessary.



For bad debts, each case is an individual debtor and not each invoice. For stores losses, the total net losses revealed at any one store within the year should be aggregated and treated as one case (eg, pharmaceutical stores). Losses of property should be aggregated to produce a total loss per case.

- 6.7 Guidance on the definitions of losses and special payments can be found in Annexes 4.10 and 4.13 of HM Treasury's [Managing public money](#). The guidance in these annexes relating to losses and special payments will apply to NHS foundation trusts in full.

### **Audit fees**

- 6.8 This is the total of fees paid or payable to the external auditor for the financial year in question and should be analysed between **statutory** audit services and other services in accordance with the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI 2008/489). These regulations were amended by the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011 (SI 2011/2198). Further information is provided in [TECH14/13FRF](#) issued by the ICAEW. Non-audit fees payable to the external auditor are analysed across the following headings:

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

Prior year comparatives should be analysed on an equivalent basis.

- 6.9 Fees for work done by external auditors under the **Code of Audit Practice issued by the Comptroller and Auditor General** should be disclosed as 'Audit services – statutory audit'. The amendment regulations also require disclosure of fees payable to an associate of the auditor (eg where the NHS foundation trust consolidates another entity that has an auditor who is an associate of the NHS foundation

trust's auditor).

***Assurance on the trust's quality report performed by the external auditor is not part of the statutory audit under the Code of Audit Practice. Such fees should be disclosed as 'other services: audit-related assurance services'.***

### **Auditor liability limitation agreements**

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

### **Related party transactions**

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

6.12 The following will be related parties of an NHS foundation trust:

- any entity which is member of the same group. This will include all bodies within the scope of the WGAs as well as any subsidiaries (including where appropriate, the NHS charitable funds)
- any associate of the NHS foundation trust (within the meaning of IAS 28)
- any joint venture in which the NHS foundation trust is a venturer (within the meaning of IFRS 11)
- key management personnel of the NHS foundation trust or the Department of Health
- any close family member of any individual within the categories above
- a person or close family member who has significant influence over the NHS foundation trust
- any entity controlled, jointly controlled, or significantly influenced by any member of key management personnel or a close family member;
- ***any entity that provides key management personnel services***

**to the NHS foundation trust<sup>6</sup> and/or**

- any pension scheme of which employees of the NHS foundation trust is a member, and any pension scheme of any other related party, as defined above. This will include the NHS Pension Scheme and any other pension scheme of which the NHS foundation trust is a member.
- 6.13 NHS foundation trusts should disclose all related party relationships in the notes to the accounts.
- 6.14 Details of all material transactions with related parties must also be disclosed in accordance with paragraphs 18 and 19 of IAS 24. Materiality should be considered from the perspective of the related party and not just from the perspective of the NHS foundation trust.
- 6.15 Commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (as defined in IAS 37, both recognised and unrecognised) are disclosed if they are with a related party.
- 6.16 Paragraph 25 of IAS 24 allows entities which are related parties because they are under the same government control to reduce the volume of the detailed disclosures required by paragraphs 18 and 19 and instead disclose:
- the name of the government and the nature of its relationship with the reporting entity
  - the following information in sufficient detail to enable the reader of the accounts to understand the effect of related party transactions:
    - the nature and amount of each individually significant transaction and
    - qualitative or quantitative information for other transactions which are collectively significant (paragraph 27 of the standard provides guidance on the level of detail which should be disclosed).
- 6.17 A specific requirement of the standard is that the total of key management personnel compensation is to be disclosed, analysed across the following categories:

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<sup>6</sup> IAS 24 amendment contained within *Annual Improvements to IFRS 2010-12*

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

***Where the NHS foundation trust obtains key management personnel services from another entity (the ‘management entity’), the foundation trust is not required to apply the requirements in this paragraph to the compensation payable by the management entity to the management entity’s employees or directors.***

***Costs incurred by the NHS foundation trust for the receipt of key management personnel services that are provided by a separate management entity should also be disclosed.***

- 6.18 In practice, the disclosure of key management personnel compensation can be combined with the Companies Act disclosure requirements, described in paragraphs 4.47 to 4.50.

### **Subsidiary and associated undertakings**

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

# 7. Annual reporting guidance for NHS foundation trusts

## Introduction

- 7.1. Schedule 7, paragraph 26 of the NHS Act 2006 (the 2006 Act) requires NHS foundation trusts to prepare an annual report. Paragraph 26(3) of Schedule 7 provides that it is for Monitor to decide the form of the reports, when the reports are to be submitted, and the periods to which the reports relate.
- 7.2. This chapter sets out the requirements for the content and format of the annual report element of the annual report and accounts of NHS foundation trusts.
- 7.3. NHS foundation trusts should ensure they have read and understood Chapter 1 and Annex 2 to Chapter 1 about preparing and submitting their annual report and accounts.
- 7.4. ***Following changes in the HM Treasury FReM, the format of NHS foundation trusts' annual reports has changed in 2015/16. The changes as adopted by Monitor should simplify the production of a foundation trust's annual report. Monitor will publish a guide to the changes as a separate document alongside the FT ARM. Each section of chapter 7 in the 2015/16 FT ARM contains a drafting note explaining the approach taken to bold italics in that section.***

## Content of the annual report

***Drafting note: This section should be considered new, but is not shown all in bold italics for clarity. See also paragraph 7.4.***

- 7.5. This guidance draws on the HM Treasury *FReM*, which interprets corporate reporting requirements in the context of the public sector. As the *FReM* applies to a wide number of bodies some of its requirements are not applicable to NHS foundation trusts – this chapter therefore includes the requirements of the *FReM* as relevant to NHS foundation

trusts.

- 7.6. The annual report of NHS foundation trusts must, as a minimum, include:
- 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
  - a quality report.
- 7.7. The annual report may, at the NHS foundation trust's discretion, include additional reporting covering sustainability, equality, and the NHS Constitution.

## Performance report

***Drafting note: This section should be considered new, but is not shown all in bold italics for clarity. See also paragraph 7.4.***

- 7.8. The purpose of the performance section of the annual report is to provide information on the entity, its main objectives and strategies and the principal risks that it faces. The requirements of the performance report are based on the requirements of a Strategic Report as set out in with sections 414A, 414C and 414D<sup>7</sup> of the Companies Act 2006, except for sections 414A(5) and (6) and 414D(2) which are not relevant. These requirements have been adapted for the public sector and NHS foundation trusts. The minimum requirements are contained in the subsequent paragraphs of this manual and foundation trusts do not need to refer to the regulations in order to meet the minimum

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<sup>7</sup> As inserted / amended by The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (SI 2013/1970).

requirements.

- 7.9. The performance report must provide a fair, balanced and understandable analysis of the entity's performance, in line with the overarching requirement for the annual report and accounts as a whole to be fair, balanced and understandable.
- 7.10. If in the opinion of the directors, the disclosure of impending developments or matters in the course of negotiation would be seriously prejudicial to the interests of the foundation trust, these do not need to be disclosed.
- 7.11. The performance report shall be signed and dated by the chief executive in his or her capacity as accounting officer. The auditor will review the performance report for consistency with the financial statements.
- 7.12. The performance report is required to have two sections: an 'Overview' and a 'Performance Analysis'.

### **Overview**

- 7.13. The purpose of the Overview is to give the user a short summary that provides them with sufficient information to understand the organisation, its purpose, the key risks to the achievement of its objectives and how it has performed during the year.
- 7.14. The Overview must include:
  - a statement from the chief executive providing their perspective on the performance of the foundation trust over the period
  - a statement of the purpose and activities of the foundation trust
  - a brief history of the foundation trust and its statutory background
  - the key issues and risks that could affect the foundation trust in delivering its objectives and
  - a going concern disclosure (as set out below).

### **Overview: Going concern**

- 7.15. There is no presumption of going concern status for NHS foundation trusts. Directors must decide each year whether or not it is appropriate for the NHS foundation trust to prepare its accounts on the going concern basis, taking into account best estimates of future activity and cash flows.

7.16. In making this assessment NHS foundation trusts should also be mindful of table 6.2 of the FReM, which emphasises that:

“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.”  
[extract]

7.17. The NHS foundation trust should include a statement in the performance report: overview on whether or not the financial statements have been prepared on a going concern basis and the reasons for this decision, with supporting assumptions or qualifications as necessary (*NHS Foundation Trust Code of Governance C.1.2*).

7.18. A typical disclosure, based on guidance from the Accounting Standards Board, would read:

*“After making enquiries, the directors have a reasonable expectation that the NHS foundation trust has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.”*

This statement **should** be amended if the going concern basis is only adopted based on the interpretation in the FReM which focuses on the continued provision of services.

7.19. Where there is fundamental uncertainty over the going concern basis (for instance, continuing operational stability depends on finance or income that has not yet been approved), or where the going concern basis is not appropriate, the directors will need to disclose the relevant circumstances and should discuss the basis of accounting and the disclosures to be made with their auditors.

### **Performance analysis**

7.20. The purpose of the “Performance analysis” is for entities to report on their most important performance measures and also providing longer term trend analysis where appropriate.

7.21. As a minimum, the performance analysis must include:

- Information on how the foundation trust measures performance i.e. what the foundation trust sees as its key performance measures and how it checks performance against those measures
- A more detailed analysis and explanation of the development and performance of the foundation trust during the year. This analysis is required to utilise a wide range of data including key financial



information from the financial statements section of the accounts

- Information about environmental matters, including the impact of the foundation trust's business on the environment
- Information about social, community and human rights issues including information about any trust policies and the effectiveness of those policies
- Any important events since the end of the financial year affecting the foundation trust and
- Details of any overseas operations.

## **Accountability report**

***Drafting note: Paragraphs 7.22 to 7.23 should be considered new, but are not shown all in bold italics for clarity. See also paragraph 7.4.***

7.22. The accountability report of the annual report comprises:

- 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 and
- annual governance statement.

7.23. The accountability report shall be signed and dated by the chief executive in his or her capacity as accounting officer.

7.24. The auditor will review the accountability report for consistency with the financial statements. The following parts of the accountability report will also be subject to audit:

- the elements of the remuneration report designated as subject to audit (see paragraphs 7.47 to 7.78) which comprise:
  - single total figure table of remuneration for each senior manager
  - pension entitlement table and other pension disclosures for each senior manager
  - fair pay disclosures

- payments to past senior managers, if relevant
- payments for loss of office, if relevant
- staff report: exit packages, if relevant
- staff report: analysis of staff numbers.

## Directors' report

***Drafting note: Paragraph 7.25 should be considered new, but is not shown all in bold italics for clarity. Any changes made to paragraphs 7.26 to 7.32 are shown in bold italics. The requirements of paragraphs 7.31 to 7.32 have been incorporated into the directors' report rather than being presented separately in chapter 7 as previously.***

7.25. The Directors' report should include the items listed below, unless disclosed elsewhere in the annual report and accounts in which case a cross-reference may be provided. These requirements are based on the requirements of the FReM paragraph 5.3.9, together with some additional requirements adopted by Monitor from the regulations<sup>8</sup>.

- the names of the chairperson, the deputy chairperson (where there is one) and the chief executive
- the names of individuals who at any time during the financial year were directors of the NHS foundation trust
- details of company directorships and other significant interests held by directors or governors which may conflict with their management responsibilities. Where the NHS foundation trust maintains a Register of Interests that is open to the public, the disclosure may be limited to a comment on how access to the information in that Register may be obtained
- (for public sector information holders only) - a statement that the NHS foundation trust has complied with the cost allocation and charging guidance issued by HM Treasury<sup>9</sup>

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<sup>8</sup> The requirements are based on sections 415, 416 and 418 of the Companies Act 2006 (section 415(4) and (5) and section 418(5) and (6) would not apply to NHS foundation trusts) as inserted by SI 2013(1970) and Regulation 10 and Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the Regulations')

<sup>9</sup> This guidance relates to chapter 6 of MPM ([here](#)), the Guide to the Establishment and Operation of Trading Funds ([here](#)), the Reuse of Public Sector Information Regulations – EU Directive ([here](#)), and the Information Fair Trading Scheme ([here](#)).

- details of any political donations
- a statement describing the better payment practice code, or any other policy adopted on payment of suppliers, and performance achieved, together with disclosure of any interest paid under the Late Payment of Commercial Debts (Interest) Act 1998
- disclosures relating to quality governance (see below)
- income disclosures as required by section 43(2A) of the NHS Act 2006 and
- a statement as to disclosure to auditors (see below).

### Enhanced quality governance reporting

7.26. NHS foundation trusts are required to include in the **directors'** report a section which gives a brief overview of the arrangements in place to govern service quality and which signposts the reader to where quality governance and quality are discussed in more detail in the annual report (ie, within the annual governance statement, quality report or **performance** report). The section should summarise briefly:

- How the foundation trust has had regard to Monitor's quality governance framework in arriving at its overall evaluation of the organisation's performance, internal control and board assurance framework and a summary of action plans to improve the governance of quality.
- Material inconsistencies (if any) between:
  - the annual governance statement
  - annual and quarterly board statements required by the *Risk Assessment Framework*, the corporate governance statement submitted with the annual plan, the quality report, and annual report and
  - reports arising from Care Quality Commission planned and responsive reviews of the NHS foundation trust and any consequent action plans developed by the NHS foundation trust.

7.27. In addition to the recommended disclosures in respect of the strategies, performance, resources and financial position of the business in the **performance report** and **directors' report**, NHS foundation trusts may wish to consider highlighting information about patient care activities (cross referencing to where it is covered in more

detail in the quality report) and stakeholder relations, for example:

#### *Patient care*

- Descriptions of how the NHS foundation trust is using its foundation trust status to develop its services and improve patient care.
- Performance against key health care targets.
- Arrangements for monitoring improvements in the quality of healthcare and progress towards meeting any national and local targets, incorporating Care Quality Commission assessments and reviews and the NHS foundation trust's response to any recommendations made.
- Progress towards targets as agreed with local commissioners, together with details of other key quality improvements.
- Any new or significantly revised services.
- Service improvements following staff or patient surveys/ comments and Care Quality Commission reports.
- Improvements in patient/carer information.
- Information on complaints handling.

#### *Stakeholder relations*

- Descriptions of significant partnerships and alliances entered into by the NHS foundation trust to facilitate the delivery of improved healthcare. These should be described together with the benefits to patients and the methods used to fund these activities.
- Development of services involving other local services/agencies and involvement in local initiatives.
- ***Consultation with local groups and organisations, including the overview and scrutiny committees of local authorities covering the membership areas.***
- ***Any other public and patient involvement activities.***

#### **Statement as to disclosure to auditors (s418)**

7.28. The directors' report must contain a statement to the effect that, for each individual who is a director at the time that the report is approved:

- so far as the director is aware, there is no relevant audit information of which the NHS foundation trust's auditor is unaware and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the NHS foundation trust's auditor is aware of that information.

7.29. "Relevant audit information" means information needed by the NHS foundation trust's auditor in connection with preparing their report.

7.30. A director is regarded as having taken all the steps that they ought to have taken as a director in order to do the things mentioned above, and:

- made such enquiries of his/her fellow directors and of the company's auditors for that purpose; and
- taken such other steps (if any) for that purpose, as are required by his/her duty as a director of the company to exercise reasonable care, skill and diligence.

### **Income disclosures required by Section 43(2A) of the NHS Act 2006**

7.31. Section 43(2A) of the NHS Act 2006 (as amended by the Health and Social Care Act 2012) requires that the income from the provision of goods and services for the purposes of the health service in England must be greater than its income from the provision of goods and services for any other purposes. NHS foundation trusts should include a statement in their annual report that they have met this requirement, or where they have not met the requirement this fact should be disclosed, together with the principal reasons and the actions that the NHS foundation trust is taking to ensure that they meet the requirement in future financial years.

7.32. As required by section 43(3A) of the NHS Act 2006, an NHS foundation trust must provide information on the impact that other income it has received has had on its provision of goods and services for the purposes of the health service in England.

### **Remuneration report**

***Drafting note: Any changes in this section (paragraphs 7.33 to 7.78) are shown in bold italics. Note that the off-payroll engagements disclosures have moved to the staff report (see paragraph 7.79).***

7.33. The *FReM* requires NHS foundation trusts to prepare a remuneration

report in their annual report and accounts. The *FReM* and Monitor requires that this remuneration report complies with:

- Sections 420 to 422 of the Companies Act 2006 (section 420(2) and (3), section 421(3) and (4) and section 422(2) and (3) do not apply to NHS foundation trusts)
- Regulation 11 and Parts 3 and 5 of Schedule 8<sup>10</sup> of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) (“the Regulations”)
- Parts 2 and 4 of Schedule 8 of the Regulations as adopted by Monitor in this Manual and
- Elements of the *NHS Foundation Trust Code of Governance*.

7.34. The remuneration report must be signed by the chief executive.

7.35. The remuneration report must disclose information on those persons in senior positions having authority or responsibility for directing or controlling the major activities of the NHS foundation trust. This means those who influence the decisions of the NHS foundation trust as a whole rather than the decisions of individual directorates or sections within the NHS foundation trust. Such persons will include advisory and non-executive board members. In the following paragraphs, such persons are described as “senior managers”. As guided by paragraph 44(1) of part 7 of schedule 8 to the Regulations, figures included in this table should include the aggregate amount paid to a senior manager in respect of their services as a senior manager of the foundation trust and amounts received in respect of their services as a senior manager of a subsidiary or other undertaking of the foundation trust. Preparers should refer to [the Regulations](#)<sup>11</sup> for more guidance if required.

7.36. The remuneration report comprises the following three sections:

- annual statement on remuneration
- senior managers’ remuneration policy and
- annual report on remuneration (of which some elements are subject to audit).

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<sup>10</sup> Schedule 8 as substituted by The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (SI 2013/1981)

<sup>11</sup> <http://www.legislation.gov.uk/ukxi/2013/1981/schedule/made>

Each of these three sections are described below.

### **Annual statement on remuneration**

7.37. The remuneration report should contain an annual statement from the chair of the remuneration committee summarising for the financial year:

- the major decisions on senior managers' remuneration
- any substantial changes relating to senior managers' remuneration made during the year and
- the context in which those changes occurred and decisions have been taken.

### **Senior managers' remuneration policy**

7.38. The information required below must be set out in a separate section of the remuneration report and constitutes the senior managers' remuneration policy of the foundation trust.

7.39. Future policy table

- In table form, a description of each of the components of the remuneration package for senior managers which comprise the senior managers' remuneration policy (including, but not limited to the items which are relevant for the purposes of the single total figure table). Where the explanation describes components that apply generally to all senior managers, the table must also include any particular arrangements which are specific to any individual senior manager.
- For each of the components described in the table, there must be set out:
  - how that component supports the short and long-term strategic objectives of the foundation trust
  - an explanation of how that component operates
  - the maximum that could be paid in respect of that component (which may be the monetary amount or a description)
  - where applicable, a description of the framework used to assess performance, including:
    - a description of any performance measures that apply, and where more than one performance measure an indication of the weightings used

- details of the performance period and
- the amount (expressed in monetary terms or otherwise) that may be paid in respect of
  - the minimum level of performance that results in any payment under the policy and
  - any further levels of performance set in accordance with the policy.

and in a note accompanying the table, an explanation of why any performance measures were chosen and how any performance targets are set

- an explanation of whether there are any provisions for the recovery of sums paid to directors or for withholding the payments of sums to senior managers
- Accompanying notes setting out, where applicable:
  - for any new components of the remuneration package, why they have been introduced
  - any changes made to existing components of the remuneration package
  - an explanation of the differences between the foundation trust's policy on senior managers' remuneration and its general policy on employees' remuneration.
- ***Where one or more senior managers are paid more than £142,500<sup>12</sup>, the remuneration report should explain (not necessarily on an individual basis) the steps the foundation trust has taken to satisfy itself that this remuneration is reasonable. Pay for a part time senior manager should be compared against a pro rata of £142,500. For this disclosure, 'pay' should be considered to be columns (a), (b), (c) and (d) of the 'single total figure table' in paragraph 7.48.***
- For non-executive directors, the policy for the components of their remuneration may be set out in a separate table, which must

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<sup>12</sup> £142,500 is the threshold used in the Civil Service for approval by the Chief Secretary to the Treasury, as set out in guidance issued by the Cabinet Office. This currently equates to the Prime Minister's ministerial and parliamentary salary. The Cabinet Office approvals process does not apply to NHS foundation trusts but this is considered a suitable benchmark above which NHS foundation trusts should make this disclosure.



include:

- the fee payable to such directors
- any additional fees payable for any other duties to the foundation trust
- such other items that are considered to be remuneration in nature

#### 7.40. Service contracts obligations

- A description of any obligation on the foundation trust which:
  - is contained in all senior managers' service contracts
  - is contained in the service contracts of any one or more existing senior managers (not including any obligations in the preceding disclosure) and/or
  - the foundation trust proposes would be contained in senior managers' service contracts to be entered into

and which could give rise to, or impact on, remuneration payments or payments for loss of office but which is not disclosed elsewhere in the remuneration report.

#### 7.41. Policy on payment for loss of office

- The policy on the setting of notice periods under senior managers' service contracts.
- The principles on which the determination of payments for loss of office will be approached, including:
  - an indication of how each component will be calculated and
  - whether, and if so how, the circumstances of the loss of office and the senior manager's performance are relevant to any exercise of discretion.

#### 7.42. Statement of consideration of employment conditions elsewhere in the foundation trust

- a statement of how the pay and conditions of employees (including any other group entities) were taken into account when setting the remuneration policy for senior managers
- whether, and if so how, the foundation trust consulted with employees when preparing the senior managers' remuneration

policy and

- whether any remuneration comparisons were used and if so, what they were and how the information was taken into account.

## **Annual report on remuneration**

**7.43. This section of the remuneration report includes some elements that are subject to audit.**

### **Information not subject to audit**

#### **7.44. Service contracts**

For each senior manager who has served during the year, disclose the date of their service contract, the unexpired term, and details of the notice period.

#### **7.45. Remuneration committee**

The report must contain the following details in respect of the remuneration committee:

- Details of the membership of the remuneration committee. This means the names of the chair and members of the remuneration committee should be disclosed (Code of Governance A.1.2).
- The number of meetings and individuals' attendance at each should also be disclosed (Code of Governance A.1.2).
- The name of any person (and in particular any director of the trust who was not a member of the committee) who provided advice or services to the committee that materially assisted the committee in their consideration of any matter.

Where such a person was neither a director or employee of the trust, nor someone providing legal advice on compliance with any relevant legislation:

- a description of the nature of any other services that person has provided to the trust during the financial year
- by whom the advisor was appointed, whether or not by the committee and how they were selected
- whether and how the committee satisfied itself that the advice received was objective and independent and
- the fee or other charge paid by the foundation trust to the

advisor for the remuneration advice or services received and the basis on which it was charged.

**7.46. Disclosures required by Health and Social Care Act**

The following information is required by section 156 (1) of the Health and Social Care Act 2012, which amended paragraph 26 of Schedule 7 to the NHS Act 2006, and is not subject to audit:

- information on the corporation's policy on pay and on the work of the committee established under paragraph 18(2) of Schedule 7 to the NHS Act 2006, and such other procedures as the corporation has on pay and
- information on the remuneration of the directors and on the expenses of the governors and the directors.

***The NHS foundation trust should assess whether it considers the requirements of the first bullet point above to be already met by the disclosures in the remuneration report and staff report.***

Monitor considers that information relating to the expenses of the governors and the directors should (separately for governors and for directors) include:

- the total number of [governors / directors] in office
- the number of [governors / directors] receiving expenses in the reporting period and
- the aggregate sum of expenses paid to [governors / directors] in the reporting period.

Disclosures should be made in £00 rather than £000 and be on an accruals basis. Comparative period information should be provided.

**Information subject to audit**

7.47. The following information is required by paragraphs 4 to 16 inclusive of Part 3 of Schedule 8 to the Regulations, or where stated by the *NHS Foundation Trust Code of Governance*, and is subject to audit. The disclosures subject to audit are detailed below in paragraphs 7.48 to 7.78, including the supporting definitions.

7.48. The report should contain a single total figure for remuneration for each senior manager (see definition below) who served during the year shown in tabular form (“the single total figure table”). The format of this

table is as follows:

Single Total Figure Table						
	a	b	c	d	e	Total
Director 1	xxx	xxx	xxx	xxx	xxx	xxx
Director 2	xxx	xxx	xxx	xxx	xxx	xxx

7.49. In the table above:

- “a” is salary and fees (in bands of £5,000)
- “b” is all taxable benefits (total to the nearest £100)
- “c” is annual performance-related bonuses (in bands of £5,000)
- “d” is long-term performance-related bonuses (in bands of £5,000)
- “e” is all pension-related benefits (in bands of £2,500)
- Additional columns must also be included for any other items in the nature of remuneration - but excluding payments to former senior managers (see below).
- The final column is total of the above items (in bands of £5,000).
- Each of the above requirements is described in further detail below.
- Prior year comparatives are required for each of the amounts.
- As set out in paragraph 8(3) of the Regulations, where the calculations of any of these columns in accordance with the detail below result in a negative value (other than in respect of a recovery or withholding), the result should be expressed as zero in the relevant column in the table.

7.50. **Fair Pay multiple**

The HM Treasury *FReM* requires disclosure of the median remuneration of the reporting entity’s staff and the ratio between this and the mid-point of the banded remuneration of the highest paid director (as defined as a senior manager in paragraph 7.35 and paragraphs 7.51 to 7.55), whether or not this is the Accounting Officer or Chief Executive. The calculation is based on full-time equivalent staff of the reporting entity at the reporting period end date on an annualised basis. NHS foundation trusts shall disclose information explaining the calculation, including the causes of significant variances where applicable. Further guidance is provided in the HM Treasury PES paper on annual reports, which is reproduced in annex 9 to this

chapter.

### **Definition of “senior managers”**

- 7.51. The definition of “senior managers” is ‘those persons in senior positions having authority or responsibility for directing or controlling the major activities of the NHS foundation trust’. The chief executive should confirm whether this covers more than the chair, the executive and non-executive directors of the NHS foundation trust (who should be treated as senior managers as a matter of course).
- 7.52. This note covers all those individuals who hold or have held office as chair, non-executive director, executive director or senior manager (as identified by the chief executive) of the NHS foundation trust during the reporting year. It is irrelevant that:
- an individual was not substantively appointed (holding office is sufficient, irrespective of defects in appointment)
  - an individual’s title as director included a prefix such as “temporary” or “alternate” or
  - an individual was engaged via a corporate body, such as an agency, and payments were made to that corporate body rather than to the individual directly.
- 7.53. Following a case arising under the Freedom of Information Act, the Information Commissioner determined that consent is not needed for the disclosure of salary and pension details for named individuals. Entities are therefore entitled to publish senior managers’ remuneration details without obtaining their prior consent. For new appointments it may be made a condition on appointment. Consent to disclose pension and salary details should always be sought from departing senior managers on their final day of service.
- 7.54. Non-disclosure is only acceptable where senior managers can demonstrate that disclosure would cause or be likely to cause substantial damage or substantial distress and that damage or distress would be unwarranted. Where non-disclosure is agreed, the fact that certain disclosures have been omitted should be disclosed.
- 7.55. For further information see the Information Commissioner’s ruling reference FS50093734 on its [website](#) or [FRAB paper 81\(08\)](#) on HM Treasury’s website.

### **Column A: salary and fees**

- 7.56. Salary is the gross salary paid/payable to the individual; this should be

shown in £5,000 ranges. Where an individual held a contract of employment for the entire financial year but was only a senior manager for six months, it is the remuneration for six months which should be shown. Where there has been overlap in a post, for example where there have been two finance directors for a month, both must be shown.

7.57. Salary includes:

- all amounts paid or payable by the NHS foundation trust to the individual, including recharges from any other health body
- overtime
- the gross cost of any arrangement whereby a senior manager receives a net amount and an NHS foundation trust pays income tax on their behalf
- any financial loss allowances paid in place of remuneration
- recruitment and retention allowances
- geographical allowances such as London weighting and
- any ex-gratia payments.

7.58. Salaries should exclude:

- taxable benefits
- performance pay and bonuses
- employers' National Insurance and superannuation contributions
- recharges to any other health body
- reimbursement of out-of-pocket expenses directly incurred in the performance of an individual's duties
- reimbursement of "travelling and other allowances" (paid under determination order) including home to work travel costs
- compensation for early retirement or for loss of office and
- any amount paid which the senior manager must subsequently repay. However, these amounts must be disclosed in the next report, and distinguished from other remuneration, where a senior manager is subsequently released from the liability or a loan to a senior manager remains unpaid for two years after the due date.

### **Column B: taxable benefits**

7.59. This is the gross value of such benefits before tax. It includes:

- expenses allowances that are subject to UK income tax and paid or payable to the person in respect of qualifying services and
- benefits received by the person (other than salary) that are emoluments of the person and are received by them in respect of qualifying services.

7.60. A narrative disclosure detailing the types of benefits and, where significant, the amount should be given after the table. Please note that this disclosure should be made in £00 rather than £000.

### **Column C: Annual performance-related bonuses**

7.61. These comprise money or other assets received or receivable for the financial year as a result of achieving performance measures and targets relating to a period ending in the relevant financial year other than:

- those which result from awards made in a previous financial year and the final vesting is determined as a result of achieving performance measures or targets relating to a period ending in the relevant financial year and
- those which are receivable subject to the achievement of performance measures or targets in a future financial year.

7.62. The amounts should be reported in bands of £5,000.

7.63. Where an amount included in column C is for deferred bonus, the amount and percentage of such deferral should be disclosed in a note accompanying the table.

### **Column D: Long-term performance-related bonuses**

7.64. These comprise money or other assets received or receivable for periods of more than one year where final vesting:

- is determined as a result of achieving performance measures or targets relating to a period ending in the relevant financial year and
- is not subject to the achievement of performance measures or targets in a future financial year.

7.65. The amounts should be reported in bands of £5,000.

## Performance bonuses – additional matters

7.66. In respect of columns C and D, where the performance measures or targets are substantially (but not fully) completed by the end of the financial year, the amount shown in the table may include sums which relate to the following financial year but this must be explained in the report. In the following year's report, the amount must not be included as remuneration for that year.

7.67. For every component of remuneration included in columns C or D, a note accompanying the table must disclose:

- details of any performance measures and the relative weighting of each;
- for each performance measure:
  - the performance targets set at the beginning of the performance period and the corresponding value of bonus achievable and
  - details of actual performance against the targets set and measured over the performance period and the resulting bonus awarded.
- Where discretion has been exercised in the award, details of how the discretion was exercised and how the resulting bonus was determined.

## Column E: Pension-related benefits

7.68. This will apply to executives only as non-executive directors do not receive any pensionable remuneration. The amount included here comprises all pension related benefits, including:

- the cash value of payments (whether in cash or otherwise) in lieu of retirement benefits and
- all benefits in year from participating in pension schemes.

7.69. For defined benefit schemes<sup>13</sup>, the amount included here is the annual increase (expressed in £2,500 bands) in pension entitlement determined in accordance with the 'HMRC' method<sup>14</sup>, less any

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<sup>13</sup> This includes the NHS Pension Scheme which is a defined benefit scheme, though accounted for locally as a defined contribution scheme.

<sup>14</sup> The HMRC method derives from s229 of the Finance Act 2004, but is modified for the



amounts paid by employees. In summary, this is as follows:

Column E = Increase in entitlement – employee contributions

Increase = ((20 x PE) +LSE) – ((20 x PB) + LSB)

Where:

PE is the annual rate of pension that would be payable to the director if they became entitled to it at the end of the financial year

PB is the annual rate of pension, adjusted for inflation, that would be payable to the director if they became entitled to it at the beginning of the financial year;

LSE is the amount of lump sum that would be payable to the director if they became entitled to it at the end of the financial year; and

LSB is the amount of lump sum, adjusted for inflation, that would be payable to the director if they became entitled to it at the beginning of the financial year.

### **Total pension entitlement**

7.70. Under the companies act regulations, disclosure is required for each senior manager of:

- their pension entitlement: this requirement will be covered by inclusion of the pension entitlements table detailed in paragraph 7.71 below;
- a description of any additional benefit that will become receivable by a director in the event that that senior manager retires early; and
- where a senior manager has rights under more than one type of pension, separate details relating to each.

7.71. The FReM (paragraph **5.3.22**) requires the following to be disclosed:

- the real increase during the reporting year in the pension and (if applicable) related lump sum at **pension age** in bands of £2,500
- the value at the end of the reporting year of the accrued pension and (if applicable) related lump sum at **pension age** in bands of

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purpose of this calculation by paragraph 10(1)(e) of schedule 8 of SI 2008/410 (as replaced by SI 2013/1981).

£5,000

- the value of the cash equivalent transfer value at the beginning of the reporting year to the nearest £1,000
- the real increase in the cash equivalent transfer value during the reporting year, to the nearest £1,000
- the value of the cash equivalent transfer value at the end of the reporting year to the nearest £1,000 and
- in the case of a partnership pension account, the employer's contribution (in these circumstances the first four bullet points in this paragraph will not apply)

The following tabular format is recommended:

Name and title	(a) Real increase in pension <b>at pension age</b> (bands of £2,500)  £000	(b) Real increase in pension lump sum <b>at pension age</b> (bands of £2,500)  £000	(c) Total accrued pension at pension age at 31 March 20xx (bands of £5,000)  £000	(d) Lump sum at pension age related to accrued pension at 31 March 20xx (bands of £5,000)  £000	(e) Cash Equivalent Transfer Value at 1 April 20xx  £000	(f) Real increase in Cash Equivalent Transfer Value  £000	(g) Cash Equivalent Transfer Value at 31 March 20xx  £000	(h) Employer's contribution to stakeholder pension  £000

7.72. The CETV is the actuarially assessed capitalised value of the pension scheme benefits accumulated by a member at a particular point in time. The benefits valued are the member's accumulated benefits and any contingent spouse's pension payable from the scheme. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

7.73. The accrued benefits derived from the member's purchase of added years of service and any "transferred-in" service must be included in these FReM pension disclosures.

7.74. The information required for the senior managers' pension entitlements will be provided by NHS Pensions. The request for information from NHS Pensions must be made by the NHS foundation trust by the deadline set by NHS Pensions providing complete information at that time.

7.75. Detailed guidance regarding the end of year procedures for requesting information from NHS Pensions can be found on its [website](#).

7.76. Where the NHS foundation trust has senior managers who are members of a different pension scheme the disclosure information should be requested in good time from the scheme.

### **Payments for loss of office**

7.77. For each individual who was a senior manager in the current or in a previous financial year that has received a payment for loss of office during the financial year, the following must be disclosed:

- the total amount payable to the individual, broken down into each component
- an explanation of how each component was calculated
- any other payments to the individual in connection with the termination of services as a senior manager, including outstanding long term bonuses that vest on or following termination and
- where any discretion was exercised in respect of the payment, an explanation of how it was exercised.

The requirements of annex 1 to chapter 7 which define what should be included in the disclosure of a non-compulsory departure payment also apply to the remuneration report.

### **Payments to past senior managers**

7.78. The report must contain details of any payments of money or other assets to any individual who was not a senior manager during the financial year but has previously been a senior manager at any time. The following payments do not need to be reported in this disclosure:

- payments for loss of office (which are separately reported above)
- payments that are otherwise shown in the single total figure table
- payments that have already been disclosed by the foundation trust in a previous remuneration report
- payments for regular pension benefits that commenced in a previous year and

- payments for employment or services provided by the individual other than as a senior manager of the foundation trust.

## Staff report

***Drafting note: This section (and the detail in paragraph 7.79) should be considered new, but is not shown all in bold italics for clarity. The staff survey disclosures in paragraphs 7.80 to 7.81 have not changed, but are now incorporated into the staff report. See also paragraph 7.4.***

7.79. The staff report must include the following information:

- An analysis of average staff numbers. These should be disclosed in the categories ***listed in the FTC template. 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>

This analysis should also distinguish between:

- staff with a permanent employment contract with the trust and
- other staff engaged on the objectives of the entity (for example, short term contract staff, agency/temporary staff, locally engaged staff overseas and inward secondments where the entity is paying the whole or the majority of their costs).
- A breakdown at the year end of the number of male and female:
  - directors
  - other senior managers and
  - employees.
- Sickness absence data
- Staff policies and actions applied during the financial year:
  - Policies applied during the financial year for giving full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities.
  - Policies applied during the financial year for continuing the employment of, and for arranging appropriate training for, employees who have become disabled persons during the period.
  - Policies applied during the financial year for the training, career

- development and promotion of disabled employees.
- Actions taken in the financial year to provide employees systematically with information on matters of concern to them as employees.
- Actions taken in the financial year to consult employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests.
- Actions taken in the financial year to encourage the involvement of employees in the NHS foundation trust's performance.
- Information on health and safety performance and occupational health
- Information on policies and procedures with respect to countering fraud and corruption
- Staff survey results (see below)
- Expenditure on consultancy
- Off-payroll engagements (see below)
- Exit packages (see annex 1 to chapter 7). This element is subject to audit, per paragraph 5.3.4 of the FReM.

### **Staff survey**

7.80. The foundation trust should include information on its staff survey results covering:

a) Commentary

- Statement of approach to staff engagement – each NHS foundation trust will be required to include a statement of its approach to staff engagement and what mechanisms are in place to monitor and learn from staff feedback.

b) Summary of performance – results from the NHS staff survey

- NHS foundation trusts will be required to provide a summary of the key findings from *the most recent* NHS staff survey, with a focus on details of the top four and bottom four scored answers and comparison to the prior year and national average performance. A table of information will be required setting out as a minimum:
  - the response rate

- the top 4 ranked scores and
- the bottom 4 ranked scores.
- Action plans to address areas of concerns
- The commentary on the key findings from the survey and each NHS foundation trust will include a summary of its plans to address specific areas of concern emerging from staff surveys and any plans to rectify these shortfalls in the short and medium term.

c) Future priorities and targets

- The commentary should include a statement on the key priorities to improve staff feedback it has (or plans to) put in place and what mechanisms are in place to monitor performance.

7.81. A sample template commentary and summary performance analysis is provided in Annex 3.

### Reporting high paid off-payroll arrangements

7.82. As part of the **staff** report NHS foundation trusts should present three tables relating to off-payroll arrangements, with some supporting disclosures. The details of these requirements are set out in annex 8 to this chapter. Further information and definitions can be found in guidance previously issued by HM Treasury, available [here](#) and [here](#).

The **staff** report should also contain a statement on the NHS foundation trust's policy on the use of off-payroll arrangements, which as a minimum should cover arrangements for highly paid staff and controls it has in place over the use of such arrangements. 'Highly paid' is defined as the threshold used by HM Treasury in the reporting tables as reproduced in annex 8 to this chapter.

## NHS Foundation Trust Code of Governance

***Drafting note: Any changes in this section (paragraphs 7.83 to 7.87) are shown in bold italics.***

7.83. *The NHS Foundation Trust Code of Governance (the Code of Governance)* was first published in 2006 and was most recently updated in July 2014.

7.84. The purpose of the *Code of Governance* is to assist NHS foundation trust boards in improving their governance practices by bringing together the best practice of public and private sector corporate

governance. The code is issued as best practice advice, but imposes some disclosure requirements.

7.85. The annual report should contain the following sentence:

“[name] NHS Foundation Trust has applied the principles of the NHS Foundation Trust Code of Governance on a comply or explain basis. The NHS Foundation Trust Code of Governance, most recently revised in July 2014, is based on the principles of the UK Corporate Governance Code issued in 2012.”

7.86. NHS foundation trusts are required to provide a specific set of disclosures in their annual report to meet the requirements of the Code of Governance. Schedule A to the *Code of Governance* specifies everything that is required within these disclosures. Schedule A is divided into six categories:

- 1) statutory requirements of the *Code of Governance* but do not require disclosures
- 2) provisions which require a supporting explanation, even where the NHS foundation trust is compliant with the provision\*
- 3) provisions which require supporting information to be made publicly available, even where the NHS foundation trust is compliant with the provision
- 4) provisions which require supporting information to be made to governors, even where the NHS foundation trust is compliant with the provision
- 5) provisions which require supporting information to be made to members, even where the NHS foundation trust is compliant with the provision and
- 6) other provisions where there are no special requirements as per 1-5 above and there is a “comply or explain” requirement. The disclosure should therefore contain an explanation in each case where the trust has departed from the *Code of Governance*, explaining the reasons for the departure and how the alternative arrangements continue to reflect the main principles of the Code of Governance (see pages 13-16 of that document).

\* Where the information is already contained within the annual report, a reference to its location is sufficient to avoid unnecessary duplication.

The information in the paragraph and table below only covers items falling into category 2 and category 6 above.

7.87. The requirements of parts 2 and 6 of schedule A to the *Code of Governance* are listed below. This table also includes requirements that are not part of the *Code of Governance* but are required by the *FT ARM*.

Part of schedule A (see above)	Relating to	Code of Governance reference	Summary of requirement
2: Disclose	Board and Council of Governors	A.1.1	The schedule of matters reserved for the board of directors should include a clear statement detailing the roles and responsibilities of the council of governors. This statement should also describe how any disagreements between the council of governors and the board of directors will be resolved. The annual report should include this schedule of matters or a summary statement of how the board of directors and the council of governors operate, including a summary of the types of decisions to be taken by each of the boards and which are delegated to the executive management of the board of directors.
2: Disclose	Board, Nomination Committee(s), Audit Committee, Remuneration Committee	A.1.2	The annual report should identify the chairperson, the deputy chairperson (where there is one), the chief executive, the senior independent director (see A.4.1) and the chairperson and members of the nominations, audit and remuneration <sup>15</sup> committees. It should also set out the number of meetings of the board and those committees and individual attendance by directors. <b><i>Part of this requirement is also contained within paragraph 7.25 as part of the directors' report.</i></b>
2: Disclose	Council of Governors	A.5.3	The annual report should identify the members of the council of governors, including a description of the constituency or organisation that they represent, whether they were elected or appointed, and the duration of their appointments. The annual report should also identify the nominated lead governor.
Additional requirement of FT ARM	Council of Governors	n/a	The annual report should include a statement about the number of meetings of the council of governors and individual attendance by governors and directors.
2: Disclose	Board	B.1.1	The board of directors should identify in the annual report each non-executive director it considers to be independent, with reasons where necessary.
2: Disclose	Board	B.1.4	The board of directors should include in its annual report a description of each director's skills, expertise and experience. Alongside this, in the annual report, the board should make a clear statement about its own balance, completeness and appropriateness to the requirements of the NHS foundation trust.

<sup>15</sup> This requirement is also contained in paragraph 7.45 as part of the remuneration report requirements. The disclosure relating to the remuneration committee should only be made once.



<b>Part of schedule A (see above)</b>	<b>Relating to</b>	<b>Code of Governance reference</b>	<b>Summary of requirement</b>
Additional requirement of FT ARM	Board	n/a	The annual report should include a brief description of the length of appointments of the non-executive directors, and how they may be terminated
2: Disclose	Nominations Committee(s)	B.2.10	A separate section of the annual report should describe the work of the nominations committee(s), including the process it has used in relation to board appointments.
Additional requirement of FT ARM	Nominations Committee(s)	n/a	The disclosure in the annual report on the work of the nominations committee should include an explanation if neither an external search consultancy nor open advertising has been used in the appointment of a chair or non-executive director.
2: Disclose	Chair / Council of Governors	B.3.1	A chairperson's other significant commitments should be disclosed to the council of governors before appointment and included in the annual report. Changes to such commitments should be reported to the council of governors as they arise, and included in the next annual report.
2: Disclose	Council of Governors	B.5.6	Governors should canvass the opinion of the trust's members and the public, and for appointed governors the body they represent, on the NHS foundation trust's forward plan, including its objectives, priorities and strategy, and their views should be communicated to the board of directors. The annual report should contain a statement as to how this requirement has been undertaken and satisfied.
Additional requirement of FT ARM	Council of Governors	n/a	<p>If, during the financial year, the Governors have exercised their power* under paragraph 10C** of schedule 7 of the NHS Act 2006, then information on this must be included in the annual report.</p> <p>This is required by paragraph 26(2)(aa) of schedule 7 to the NHS Act 2006, as amended by section 151 (8) of the Health and Social Care Act 2012.</p> <p>* Power to require one or more of the directors to attend a governors' meeting for the purpose of obtaining information about the foundation trust's performance of its functions or the directors' performance of their duties (and deciding whether to propose a vote on the foundation trust's or directors' performance).</p> <p>** As inserted by section 151 (6) of the Health and Social Care Act 2012)</p>
2: Disclose	Board	B.6.1	The board of directors should state in the annual report how performance evaluation of the board, its committees, and its directors, including the chairperson, has been conducted.
2: Disclose	Board	B.6.2	Where there has been external evaluation of the board and/or governance of the trust, the external facilitator should be identified in the annual report and a statement made as to whether they have any other connection to the trust.

<b>Part of schedule A (see above)</b>	<b>Relating to</b>	<b>Code of Governance reference</b>	<b>Summary of requirement</b>
2: Disclose	Board	C.1.1	The directors should explain in the annual report their responsibility for preparing the annual report and accounts, and state that they consider the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for patients, regulators and other stakeholders to assess the NHS foundation trust's performance, business model and strategy. Directors should also explain their approach to quality governance in the Annual Governance Statement (within the annual report). See also ARM paragraph 7.92.
2: Disclose	Board	C.2.1	The annual report should contain a statement that the board has conducted a review of the effectiveness of its system of internal controls.
2: Disclose	Audit Committee / control environment	C.2.2	A trust should disclose in the annual report: (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.
2: Disclose	Audit Committee / Council of Governors	C.3.5	If the council of governors does not accept the audit committee's recommendation on the appointment, reappointment or removal of an external auditor, the board of directors should include in the annual report a statement from the audit committee explaining the recommendation and should set out reasons why the council of governors has taken a different position.
2: Disclose	Audit Committee	C.3.9	A separate section of the annual report should describe the work of the audit committee in discharging its responsibilities. The report should include: <ul style="list-style-type: none"> <li>the significant issues that the committee considered in relation to financial statements, operations and compliance, and how these issues were addressed;</li> <li>an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or re-appointment of the external auditor, the value of external audit services and information on the length of tenure of the current audit firm and when a tender was last conducted; and</li> <li>if the external auditor provides non-audit services, the value of the non-audit services provided and an explanation of how auditor objectivity and independence are safeguarded.</li> </ul>
2: Disclose	Board / Remuneration Committee	D.1.3	Where an NHS foundation trust releases an executive director, for example to serve as a non-executive director elsewhere, the remuneration disclosures of the annual report should include a statement of whether or not the director will retain such earnings.

<b>Part of schedule A (see above)</b>	<b>Relating to</b>	<b>Code of Governance reference</b>	<b>Summary of requirement</b>
2: Disclose	Board	E.1.5	The board of directors should state in the annual report the steps they have taken to ensure that the members of the board, and in particular the non-executive directors, develop an understanding of the views of governors and members about the NHS foundation trust, for example through attendance at meetings of the council of governors, direct face-to-face contact, surveys of members' opinions and consultations.
2: Disclose	Board / Membership	E.1.6	The board of directors should monitor how representative the NHS foundation trust's membership is and the level and effectiveness of member engagement and report on this in the annual report.
2: Disclose	Membership	E.1.4	Contact procedures for members who wish to communicate with governors and/or directors should be made clearly available to members on the NHS foundation trust's website and in the annual report.
Additional requirement of FT ARM	Membership	n/a	The annual report should include: <ul style="list-style-type: none"> <li>• a brief description of the eligibility requirements for joining different membership constituencies, including the boundaries for public membership;</li> <li>• information on the number of members and the number of members in each constituency; and</li> <li>• a summary of the membership strategy, an assessment of the membership and a description of any steps taken during the year to ensure a representative membership [see also E.1.6 above], including progress towards any recruitment targets for members.</li> </ul>
Additional requirement of FT ARM (based on FReM requirement)	Board / Council of Governors	n/a	The annual report should disclose details of company directorships or other material interests in companies held by governors and/or directors where those companies or related parties are likely to do business, or are possibly seeking to do business, with the NHS foundation trust. As each NHS foundation trust must have registers of governors' and directors' interests which are available to the public, an alternative disclosure is for the annual report to simply state how members of the public can gain access to the registers instead of listing all the interests in the annual report. See also ARM paragraph 0 as directors' report requirement.
6: Comply or explain	Board	A.1.4	The board should ensure that adequate systems and processes are maintained to measure and monitor the NHS foundation trust's effectiveness, efficiency and economy as well as the quality of its healthcare delivery
6: Comply or explain	Board	A.1.5	The board should ensure that relevant metrics, measures, milestones and accountabilities are developed and agreed so as to understand and assess progress and delivery of performance
6: Comply or explain	Board	A.1.6	The board should report on its approach to clinical governance.
6: Comply or explain	Board	A.1.7	The chief executive as the accounting officer should follow the procedure set out by Monitor for advising the board and the council and for recording and submitting objections to decisions.

<b>Part of schedule A (see above)</b>	<b>Relating to</b>	<b>Code of Governance reference</b>	<b>Summary of requirement</b>
6: Comply or explain	Board	A.1.8	The board should establish the constitution and standards of conduct for the NHS foundation trust and its staff in accordance with NHS values and accepted standards of behaviour in public life
6: Comply or explain	Board	A.1.9	The board should operate a code of conduct that builds on the values of the NHS foundation trust and reflect high standards of probity and responsibility.
6: Comply or explain	Board	A.1.10	The NHS foundation trust should arrange appropriate insurance to cover the risk of legal action against its directors.
6: Comply or explain	Chair	A.3.1	The chairperson should, on appointment by the council, meet the independence criteria set out in B.1.1. A chief executive should not go on to be the chairperson of the same NHS foundation trust.
6: Comply or explain	Board	A.4.1	In consultation with the council, the board should appoint one of the independent non-executive directors to be the senior independent director.
6: Comply or explain	Board	A.4.2	The chairperson should hold meetings with the non-executive directors without the executives present.
6: Comply or explain	Board	A.4.3	Where directors have concerns that cannot be resolved about the running of the NHS foundation trust or a proposed action, they should ensure that their concerns are recorded in the board minutes.
6: Comply or explain	Council of Governors	A.5.1	The council of governors should meet sufficiently regularly to discharge its duties.
6: Comply or explain	Council of Governors	A.5.2	The council of governors should not be so large as to be unwieldy.
6: Comply or explain	Council of Governors	A.5.4	The roles and responsibilities of the council of governors should be set out in a written document.
6: Comply or explain	Council of Governors	A.5.5	The chairperson is responsible for leadership of both the board and the council but the governors also have a responsibility to make the arrangements work and should take the lead in inviting the chief executive to their meetings and inviting attendance by other executives and non-executives, as appropriate.
6: Comply or explain	Council of Governors	A.5.6	The council should establish a policy for engagement with the board of directors for those circumstances when they have concerns.
6: Comply or explain	Council of Governors	A.5.7	The council should ensure its interaction and relationship with the board of directors is appropriate and effective.
6: Comply or explain	Council of Governors	A.5.8	The council should only exercise its power to remove the chairperson or any non-executive directors after exhausting all means of engagement with the board.
6: Comply or explain	Council of Governors	A.5.9	The council should receive and consider other appropriate information required to enable it to discharge its duties.
6: Comply or explain	Board	B.1.2	At least half the board, excluding the chairperson, should comprise non-executive directors determined by the board to be independent.

<b>Part of schedule A (see above)</b>	<b>Relating to</b>	<b>Code of Governance reference</b>	<b>Summary of requirement</b>
6: Comply or explain	Board / Council of Governors	B.1.3	No individual should hold, at the same time, positions of director and governor of any NHS foundation trust.
6: Comply or explain	Nomination Committee(s)	B.2.1	The nominations committee or committees, with external advice as appropriate, are responsible for the identification and nomination of executive and non-executive directors.
6: Comply or explain	Board / Council of Governors	B.2.2	Directors on the board of directors and governors on the council should meet the “fit and proper” persons test described in the provider licence.
6: Comply or explain	Nomination Committee(s)	B.2.3	The nominations committee(s) should regularly review the structure, size and composition of the board and make recommendations for changes where appropriate.
6: Comply or explain	Nomination Committee(s)	B.2.4	The chairperson or an independent non-executive director should chair the nominations committee(s).
6: Comply or explain	Nomination Committee(s) / Council of Governors	B.2.5	The governors should agree with the nominations committee a clear process for the nomination of a new chairperson and non-executive directors.
6: Comply or explain	Nomination Committee(s)	B.2.6	Where an NHS foundation trust has two nominations committees, the nominations committee responsible for the appointment of non-executive directors should consist of a majority of governors.
6: Comply or explain	Council of Governors	B.2.7	When considering the appointment of non-executive directors, the council should take into account the views of the board and the nominations committee on the qualifications, skills and experience required for each position.
6: Comply or explain	Council of Governors	B.2.8	The annual report should describe the process followed by the council in relation to appointments of the chairperson and non-executive directors.
6: Comply or explain	Nomination Committee(s)	B.2.9	An independent external adviser should not be a member of or have a vote on the nominations committee(s).
6: Comply or explain	Board	B.3.3	The board should not agree to a full-time executive director taking on more than one non-executive directorship of an NHS foundation trust or another organisation of comparable size and complexity.
6: Comply or explain	Board / Council of Governors	B.5.1	The board and the council governors should be provided with high-quality information appropriate to their respective functions and relevant to the decisions they have to make.
6: Comply or explain	Board	B.5.2	The board and in particular non-executive directors, may reasonably wish to challenge assurances received from the executive management. They need not seek to appoint a relevant adviser for each and every subject area that comes before the board, although they should, wherever possible, ensure that they have sufficient information and understanding to enable challenge and to take decisions on an informed basis.

<b>Part of schedule A (see above)</b>	<b>Relating to</b>	<b>Code of Governance reference</b>	<b>Summary of requirement</b>
6: Comply or explain	Board	B.5.3	The board should ensure that directors, especially non-executive directors, have access to the independent professional advice, at the NHS foundation trust's expense, where they judge it necessary to discharge their responsibilities as directors.
6: Comply or explain	Board / Committees	B.5.4	Committees should be provided with sufficient resources to undertake their duties.
6: Comply or explain	Chair	B.6.3	The senior independent director should lead the performance evaluation of the chairperson.
6: Comply or explain	Chair	B.6.4	The chairperson, with assistance of the board secretary, if applicable, should use the performance evaluations as the basis for determining individual and collective professional development programmes for non-executive directors relevant to their duties as board members.
6: Comply or explain	Chair / Council of Governors	B.6.5	Led by the chairperson, the council should periodically assess their collective performance and they should regularly communicate to members and the public details on how they have discharged their responsibilities.
6: Comply or explain	Council of Governors	B.6.6	There should be a clear policy and a fair process, agreed and adopted by the council, for the removal from the council of any governor who consistently and unjustifiably fails to attend the meetings of the council or has an actual or potential conflict of interest which prevents the proper exercise of their duties.
6: Comply or explain	Board / Remuneration Committee	B.8.1	The remuneration committee should not agree to an executive member of the board leaving the employment of an NHS foundation trust, except in accordance with the terms of their contract of employment, including but not limited to service of their full notice period and/or material reductions in their time commitment to the role, without the board first having completed and approved a full risk assessment.
6: Comply or explain	Board	C.1.2	The directors should report that the NHS foundation trust is a going concern with supporting assumptions or qualifications as necessary. See also ARM paragraph 7.15.
6: Comply or explain	Board	C.1.3	At least annually and in a timely manner, the board should set out clearly its financial, quality and operating objectives for the NHS foundation trust and disclose sufficient information, both quantitative and qualitative, of the NHS foundation trust's business and operation, including clinical outcome data, to allow members and governors to evaluate its performance.

<b>Part of schedule A (see above)</b>	<b>Relating to</b>	<b>Code of Governance reference</b>	<b>Summary of requirement</b>
6: Comply or explain	Board	C.1.4	<p>a) The board of directors must notify Monitor and the council of governors without delay and should consider whether it is in the public's interest to bring to the public attention, any major new developments in the NHS foundation trust's sphere of activity which are not public knowledge, which it is able to disclose and which may lead by virtue of their effect on its assets and liabilities, or financial position or on the general course of its business, to a substantial change to the financial wellbeing, healthcare delivery performance or reputation and standing of the NHS foundation trust.</p> <p>b) The board of directors must notify Monitor and the council of governors without delay and should consider whether it is in the public interest to bring to public attention all relevant information which is not public knowledge concerning a material change in:</p> <ul style="list-style-type: none"> <li>• the NHS foundation trust's financial condition;</li> <li>• the performance of its business; and/or</li> <li>• the NHS foundation trust's expectations as to its performance which, if made public, would be likely to lead to a substantial change to the financial wellbeing, healthcare delivery performance or reputation and standing of the NHS foundation trust.</li> </ul>
6: Comply or explain	Board / Audit Committee	C.3.1	The board should establish an audit committee composed of at least three members who are all independent non-executive directors.
6: Comply or explain	Council of Governors / Audit Committee	C.3.3	The council should take the lead in agreeing with the audit committee the criteria for appointing, re-appointing and removing external auditors.
6: Comply or explain	Council of Governors / Audit Committee	C.3.6	The NHS foundation trust should appoint an external auditor for a period of time which allows the auditor to develop a strong understanding of the finances, operations and forward plans of the NHS foundation trust.
6: Comply or explain	Council of Governors	C.3.7	When the council ends an external auditor's appointment in disputed circumstances, the chairperson should write to Monitor informing it of the reasons behind the decision.
6: Comply or explain	Audit Committee	C.3.8	The audit committee should review arrangements that allow staff of the NHS foundation trust and other individuals where relevant, to raise, in confidence, concerns about possible improprieties in matters of financial reporting and control, clinical quality, patient safety or other matters.
6: Comply or explain	Remuneration Committee	D.1.1	Any performance-related elements of the remuneration of executive directors should be designed to align their interests with those of patients, service users and taxpayers and to give these directors keen incentives to perform at the highest levels.
6: Comply or explain	Remuneration Committee	D.1.2	Levels of remuneration for the chairperson and other non-executive directors should reflect the time commitment and responsibilities of their roles.

Part of schedule A (see above)	Relating to	Code of Governance reference	Summary of requirement
6: Comply or explain	Remuneration Committee	D.1.4	The remuneration committee should carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointments would give rise to in the event of early termination.
6: Comply or explain	Remuneration Committee	D.2.2	The remuneration committee should have delegated responsibility for setting remuneration for all executive directors, including pension rights and any compensation payments.
6: Comply or explain	Council of Governors / Remuneration Committee	D.2.3	The council should consult external professional advisers to market-test the remuneration levels of the chairperson and other non-executives at least once every three years and when they intend to make a material change to the remuneration of a non-executive.
6: Comply or explain	Board	E.1.2	The board should clarify in writing how the public interests of patients and the local community will be represented, including its approach for addressing the overlap and interface between governors and any local consultative forums.
6: Comply or explain	Board	E.1.3	The chairperson should ensure that the views of governors and members are communicated to the board as a whole.
6: Comply or explain	Board	E.2.1	The board should be clear as to the specific third party bodies in relation to which the NHS foundation trust has a duty to co-operate.
6: Comply or explain	Board	E.2.2	The board should ensure that effective mechanisms are in place to co-operate with relevant third party bodies and that collaborative and productive relationships are maintained with relevant stakeholders at appropriate levels of seniority in each.

***Drafting note: Any changes in the remainder of chapter 7 (prior to the annexes) are shown in bold italics. The quality reports paragraphs have been moved to below the annual governance statement paragraphs to reflect the order of the annual report in paragraph 7.6.***

## Regulatory ratings

7.88. The commentary will include a summary of the regulatory performance in the year, focusing on the risk ratings obtained in comparison to the annual plan risk ratings, and actions put in place to rectify shortfalls on performance. Where formal regulatory action has been taken this should be disclosed with the actions taken, or proposed, to address this. The change in the regulatory regime during the year should also be explained, together with the impact this has had on the NHS foundation trust's ratings. ***Regulatory ratings should be disclosed on the same basis as in the foundation trust's monitoring templates issued by Monitor; i.e. on a group basis but excluding the impact of consolidated charitable funds.***



7.89. A template commentary and table of analysis is provided in Annex 4.

### **Statement of accounting officer's responsibilities**

7.90. The NHS foundation trust's chief executive should explain his/her responsibility for preparing the financial statements. This should be positioned after the annual report and before the annual governance statement. A model statement of accounting officer's responsibilities is provided in annex 5 to this document.

7.91. Paragraph 25 of Schedule 7 to the 2006 Act states that the NHS foundation trust is to prepare annual accounts, and that such functions of the trust are to be delegated to the Accounting Officer. The [NHS Foundation Trust Accounting Officer Memorandum](#) further states that it is the chief executive's personal responsibility to prepare the financial statements.

7.92. In addition, the [NHS Foundation Trust Code of Governance](#) (C.1.1) requires directors to include in the annual report an explanation of their responsibility for preparing the annual report and accounts. This includes a statement that the directors consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for patients, regulators and stakeholders to assess the NHS foundation trust's performance, business model and strategy (*Code of Governance C.1.1*)

### **Annual governance statement**

7.93. All entities covered by the requirements of this manual shall prepare an annual governance statement. A model annual governance statement is reproduced in Annex 6 to this document, but should be adapted and expanded to reflect the particular circumstance of the NHS foundation trust. Monitor does not prescribe for foundation trusts which issues should be considered to be significant control issues. Foundation trusts should ensure that a consistent definition of what constitutes significance is applied from year to year.

7.94. The annual governance statement includes reference to quality governance. Monitor's quality governance framework may be used for information on good practice in quality governance and is available in Annex 7 of this manual.

7.95. The annual governance statement should include disclosure of any serious incidents relating to information governance including data loss or confidentiality breach. As a minimum this should include details of any incidents classified as Level 2 in the Information Governance

Incident Reporting Tool. For these cases the foundation trust should also disclose whether these cases have been reported to the Information Commissioner's Office (ICO) and detail any action taken by the ICO. If disclosure would be prejudicial to any ongoing investigations or disciplinary or regulatory proceedings, details may be omitted.

- 7.96. The annual report should also include a statement report that the board has conducted a review of the effectiveness of the trust's system on internal controls. (*Code of Governance C.2.1*).

## Quality report

- 7.97. NHS foundation trusts should include a report on the quality of care they provide within their annual report. The aim of this quality report is to improve public accountability for the quality of care. Annex 2 to chapter 7 contains Monitor's requirements for quality reports. This sets out how the quality accounts requirements should be incorporated into the quality report, and Monitor's additional requirements for quality reports.
- 7.98. Monitor will also require NHS foundation trusts to obtain a limited assurance report from their external auditors on the content of the quality report and to include it in the annual report. This will report on whether anything has come to the attention of the auditor that leads them to believe that the content of the quality report has not been prepared in line with the requirements set out in this NHS Foundation Trust Annual Reporting Manual and/or is not consistent with the other information sources detailed in the detailed guidance. We will publish separate detailed guidance on external assurance on quality reports for 2015/16.
- 7.99. The deadline for the annual report containing the quality report is **27 May 2016**. The deadline for the signed limited assurance report on the content of the quality report and the mandated indicators requiring a limited assurance report, and the report to the council of governors is **27 May 2016**.

## Voluntary disclosures

- 7.100. NHS foundation trusts are encouraged to include sections within their annual report and accounts entitled Sustainability Report and/or Equality reporting. Inclusion is left to NHS foundation trusts' discretion. ***If included, Monitor recommends treating these as sub-sections of the Accountability Report.***

## **Sustainability reporting**

7.101. Should NHS foundation trusts choose to include a sustainability report, Monitor would encourage NHS foundation trusts to follow the approach laid out by HM Treasury. Further guidance is available from the Sustainable Development Unit at <http://www.sdu.nhs.uk/corporate-requirements/governance/reporting.aspx>. NHS bodies may also wish to refer to general HM Treasury 2013-14 guidance for the preparation of sustainability reports at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/279330/PU1632\\_Sustainability\\_Reporting\\_Guidance.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/279330/PU1632_Sustainability_Reporting_Guidance.pdf).

## **Equality reporting**

7.102. Requirements for the equality report, which may be included in the annual report and accounts at NHS foundation trusts' discretion, will be found at [www.gov.uk/equality-act-2010-guidance](http://www.gov.uk/equality-act-2010-guidance). If an equality report is included in the annual report, NHS foundation trusts are required to follow these requirements.

## Annex 1 to Chapter 7: Exit packages

This annex sets out the disclosure requirements for exit packages to be included within the staff report. The disclosure requirements are unchanged from 2014/15 but have moved from the accounts to the annual report as part of the FReM changes for 2015/16.

### Staff exit packages

Foundation trusts are required to disclose summary information of their use of exit packages agreed in the year, as required by the *FReM* (paragraph 5.3.27(h)).

A narrative description should be provided, together with summary information in accordance with the table below (comparative information should be included either in brackets, additional columns, or a separate table).

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

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

This note should disclose all exit packages, including those paid to senior managers as defined in chapter 7 of the FT ARM. Amounts paid to senior managers will require further disclosure in the directors' remuneration report.

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

## Exit packages: non-compulsory departure payments

This note discloses the number of non-compulsory departures which attracted an exit package in the year, and the values of the associated payment(s) by individual type. The note is prepared on the same basis as the exit packages note, ie showing the exit packages agreed in the year, irrespective of the actual date of accrual or payment.

The total value in this note should agree with the total resource cost for other departures in the exit packages note. However, there are likely to be differences in the component numbers as the exit packages note relates to the number of individuals receiving an exit package, while this note gives the number for each component. As a single exit package is likely to be made up of several components, each of which will be counted separately, the total number is likely to be higher than the number of individuals. The first four lines should only be used for amounts due under contractual entitlements. Any non-contractual element of a payment (such as a non-contractual payment in lieu of notice) should be included in the 'non-contractual payment requiring HM Treasury (HMT) approval' line.

Payments are disclosed in the following categories. Comparative information should be included either in brackets, additional columns, or a separate table and restated if last year they were not disclosed as clarified here.

	<b>Agreements Number</b>	<b>Total Value of Agreements £000</b>
Voluntary redundancies including early retirement contractual costs		
Mutually agreed resignations (MARS) contractual costs		
Early retirements in the efficiency of the service contractual costs		
Contractual payments in lieu of notice		
Exit payments following Employment Tribunals or court orders		
Non-contractual payments requiring HMT approval *		
<b>Total</b>		
Of which: non-contractual payments requiring HMT approval made to individuals where the payment value was more than 12 months of their annual salary	[this will be a subset of the non-contractual line above]	[this will be a subset of the non-contractual line above]

As a single exit packages can be made up of several components, each of which will be counted separately in this note, the total number above will not necessarily match the total numbers in note X [exit packages] which will be the number of individuals.

\*Includes any non-contractual severance payment made following judicial mediation, and X [list

amounts] relating to non-contractual payments in lieu of notice.

The Remuneration Report provides details of exit payments payable to individuals named in that Report.

The foundation trust should also disclose the maximum (highest), minimum (lowest) and median values of special severance payments, i.e. amounts included in the 'non-contractual payments' line of the table above.

Early retirement costs include any top-up to compensation provided by the employer to buy out the actuarial reduction on an individual's pension. Exit payments made following an Employment Tribunal or court order are also included. Any such payments are considered contractual as the orders have to be paid by the party against whom the order is made, although may relate to compensation for loss of office.

Non-contractual payments are those made outside of contractual or legal obligation, including those from judicial mediation. Pre-authorisation from HM Treasury (or the parent body for cases below de minimis limits) must be sought for such payments before they are agreed with the employee. Failure to obtain HM Treasury authorisation before making such a payment may constitute irregular expenditure. The amount of any non-contractual payments in lieu of notice must be listed in the footnote. A further line discloses the number and value of non-contractual payments made to individuals where the payment was more than 12 months' annual salary. The reference salary for this disclosure is the annualised salary at the date of termination of employment, and excludes bonus payments and employer's pension contributions.

## Annex 2 to Chapter 7: Quality Report requirements

NHS foundation trusts have to publish a quality account each year, as required by the NHS Act 2009, in the terms set out in the [NHS \(Quality Accounts\) Regulations 2010](#) and any subsequent amendments to those regulations (collectively referred to as the *Quality Account Regulations* hereafter).

Where an NHS foundation trust has provided and/or subcontracted community health services during the year, the NHS foundation trust should include such community health services in the review of services in the quality report. Where an NHS foundation trust begins to provide or subcontract health services on or after 1 April 2016 they should not be included in the review of services. They should be considered for inclusion in the priorities for improvement for 2016/17.

The Quality Report must meet all the requirements of the *Quality Account Regulations* as well as include a number of additional reporting requirements set by Monitor, as detailed below.

Monitor will issue a pro forma for the Quality Report which incorporates the requirements of the *Quality Account Regulations* later in the financial year. Quality Reports prepared by NHS foundation trusts must follow this format.

### Part 1. Statement on quality from the Chief Executive of the NHS foundation trust

This section must include everything required by the *Quality Account Regulations*.

Monitor has no additional Quality Report requirements for inclusion in this section.

### Part 2. Priorities for improvement and statements of assurance from the board

This section must include everything required by the *Quality Account Regulations*.

In addition, following the assurance statement relating to income conditional upon achieving quality improvement and innovation goals agreed between the provider and any person or body they entered into a contract, agreement or arrangement with for the provision of relevant health services, through the Commissioning for Quality and Innovation payment framework, NHS foundation trusts may choose to expand further upon their agreed goals and the rationale behind them (eg, how they fit with local/regional strategies).

NHS foundation trusts should also include a statement which gives a monetary total for the amount of income in 2015/16 conditional upon achieving quality improvement and innovation goals, and a monetary total for the associated payment in 2014/15.

Following the standard statement regarding any Payment by Results clinical coding audit, NHS foundation trusts should include an explanatory note for clinical coding stating:

- that the results should not be extrapolated further than the actual sample audited; and
- which services were reviewed within the sample.

### Part 3. Other information

This section must include everything required by the *Quality Account Regulations*.

In addition, this section of the Quality Report should include the following:

- An overview of the quality of care offered by the NHS foundation trust based on performance in 2015/16 against indicators selected by the board in consultation with stakeholders, with an explanation of the underlying reason(s) for selection. The indicator set selected must include:
  - at least 3 indicators for patient safety;
  - at least 3 indicators for clinical effectiveness; and
  - at least 3 indicators for patient experience.

For those indicators selected by the NHS foundation trust, the report should refer to historical data and benchmarked data where available, to enable readers to understand progress over time and performance compared to other providers.

References of the data sources for the indicators should be stated, including whether the data is governed by standard national definitions.

Where these indicators have changed from the indicators used in the 2014/15 report, the NHS foundation trust should outline the rationale for why these indicators have changed.

Where the quality indicators are the same as those used in the 2014/15 report and refer to historical data, the data reported should be checked to ensure consistency with the 2014/15 report. Where



inconsistencies exist, NHS foundation trusts are required to include an explanatory note on any changes in the basis of calculation.

- Performance against the relevant indicators and performance thresholds set out in the *Risk assessment framework* (note: there will be some overlap with indicators reported in Part 2, as mandated by the *Quality Accounts Regulations*. Only the additional indicators which have not already been reported in Part 2 need to be reported here to avoid duplication of reporting). Where relevant, performance should be reported for the whole year. For example performance against the referral to treatment targets should be reported as the arithmetic average for the year of the monthly reported performance during the year.
- An annex statement of directors' responsibilities, based on the following pro forma.

*Annex: Statement of directors' responsibilities in respect of the Quality Report*

The directors are required under the Health Act 2009 and the National Health Service (Quality Accounts) Regulations to prepare Quality Accounts for each financial year.

Monitor has issued guidance to NHS foundation trust boards on the form and content of annual quality reports (which incorporate the above legal requirements) and on the arrangements that NHS foundation trust boards should put in place to support the data quality for the preparation of the quality report.

In preparing the Quality Report, directors are required to take steps to satisfy themselves that:

- the content of the Quality Report meets the requirements set out in the NHS Foundation Trust Annual Reporting Manual 2015/16 and supporting guidance;
- the content of the Quality Report is not inconsistent with internal and external sources of information including:
  - board minutes and papers for the period April 2015 to [the date of this statement]
  - papers relating to quality reported to the board over the period April 2015 to [the date of this statement]
  - feedback from commissioners dated XX/XX/20XX
  - feedback from governors dated XX/XX/20XX

- feedback from local Healthwatch organisations dated XX/XX/20XX
  - feedback from Overview and Scrutiny Committee dated XX/XX/20XX
  - the trust's complaints report published under regulation 18 of the Local Authority Social Services and NHS Complaints Regulations 2009, dated XX/XX/20XX;
  - the [latest] national patient survey XX/XX/20XX
  - the [latest] national staff survey XX/XX/20XX
  - the Head of Internal Audit's annual opinion over the trust's control environment dated XX/XX/20XX
  - CQC Intelligent Monitoring Report dated XX/XX/20XX
- the Quality Report presents a balanced picture of the NHS foundation trust's performance over the period covered;
  - the performance information reported in the Quality Report is reliable and accurate;
  - there are proper internal controls over the collection and reporting of the measures of performance included in the Quality Report, and these controls are subject to review to confirm that they are working effectively in practice;
  - the data underpinning the measures of performance reported in the Quality Report is robust and reliable, conforms to specified data quality standards and prescribed definitions, is subject to appropriate scrutiny and review; and
  - the Quality Report has been prepared in accordance with Monitor's annual reporting guidance (which incorporates the Quality Accounts regulations) as well as the standards to support data quality for the preparation of the Quality Report.

The directors confirm to the best of their knowledge and belief they have complied with the above requirements in preparing the Quality Report.

By order of the board

NB: sign and date in any colour ink except black

.....Date.....Chairman

.....Date.....Chief Executive

## **Publishing a quality account to comply with the Quality Accounts Regulations**

Having prepared a quality account, NHS foundation trusts should publish the document by uploading it to the NHS Choices website. All NHS foundation trusts have the ability to undertake this upload via their individual profile page.

NHS foundation trusts must decide whether to include Monitor's additional reporting requirements in the quality account which is uploaded onto NHS Choices. Therefore NHS foundation trusts have two options in publishing their quality account as follows:

– EITHER –

1. upload the entire quality report as it is, without adapting or amending it, as the trust's quality account;

– OR –

2. remove Monitor's additional reporting requirements from the Quality Report before uploading the resulting quality account onto NHS Choices .

Please note that the statements required by the annex of the Quality Accounts Regulations (for example, statements from commissioners) will only relate to the content required under the Quality Accounts Regulations.

## Annex 3 to Chapter 7: Staff survey report – template commentary and data section

### Commentary

Statement of approach to staff engagement and feedback arrangements in place and key priorities and targets.

### Summary of performance – NHS staff survey

Details of the key findings from the latest NHS staff survey:

- response rate compared with prior year
- areas of improvement from the prior year and deterioration
- top 4 ranking scores
- bottom 4 ranking scores
- key areas of improvement
- summary details of any local surveys and results (if applicable) and
- areas of concern and action plans to address.

*Note example: Staff survey*

	20XX/YY		20YY/ZZ		Trust improvement/ deterioration
<b>Response rate</b>	Trust	National Average	Trust	National Average	
	X%	X%	X%	X%	Increase/decrease in % points

	20XX/YY		20YY/ZZ		Trust improvement/ deterioration
<b>Top 4 ranking scores</b>	Trust	National Average	Trust	National Average	
Question	X%	X%	X%	X%	Increase/decrease in % points
Question	X%	X%	X%	X%	Increase/decrease in % points
Question	X%	X%	X%	X%	Increase/decrease in % points
Question	X%	X%	X%	X%	Increase/decrease in % points

	20XX/YY		20YY/ZZ		Trust improvement/ deterioration
<b>Bottom 4 ranking scores</b>	Trust	National Average	Trust	National Average	
Question	X%	X%	X%	X%	Increase/decrease in % points
Question	X%	X%	X%	X%	Increase/decrease in % points
Question	X%	X%	X%	X%	Increase/decrease in % points
Question	X%	X%	X%	X%	Increase/decrease in % points

### **Future priorities and targets**

- Statement of key priority areas
- Performance against priority areas (against targets set)
- Monitoring arrangements and
- Future priorities and how they will be measured.

## Annex 4 to Chapter 7: Regulatory ratings report – template commentary and table of analysis

### *Commentary*

- Explanation of the foundation trust’s risk ratings
- Summary of rating performance throughout the year and comparison to prior year
- Analysis of actual quarterly rating performance compared with expectation in the annual plan
- Comparison to prior year
- Explanation for differences in actual performance versus expected performance at the time of the annual risk assessment and
- Details and actions from any formal interventions.

### *Table of analysis*

<b>2015/16</b>	<b>Annual Plan</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>Continuity of service rating</b>					
<b>Governance rating</b>					

<b>2014/15</b>	<b>Annual Plan</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>Continuity of service rating</b>					
<b>Governance rating</b>					

## **Annex 5 to Chapter 7: Model statement of accounting officer's responsibilities**

### **Statement of the chief executive's responsibilities as the accounting officer of [name of provider] NHS Foundation Trust**

The NHS Act 2006 states that the chief executive is the accounting officer of the NHS foundation trust. The relevant responsibilities of the accounting officer, including their responsibility for the propriety and regularity of public finances for which they are answerable, and for the keeping of proper accounts, are set out in the *NHS Foundation Trust Accounting Officer Memorandum* issued by Monitor.

Under the NHS Act 2006, Monitor has directed [name] NHS foundation trust to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of [name] NHS foundation trust and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *NHS Foundation Trust Annual Reporting Manual* and in particular to:

- observe the Accounts Direction issued by Monitor, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the *NHS Foundation Trust Annual Reporting Manual* have been followed, and disclose and explain any material departures in the financial statements
- ensure that the use of public funds complies with the relevant legislation, delegated authorities and guidance and
- prepare the financial statements on a going concern basis.

The accounting officer is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the NHS foundation trust and to enable him/her to ensure that the accounts comply with requirements outlined in the above mentioned Act. The Accounting Officer is also responsible for safeguarding the assets of the NHS foundation trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

To the best of my knowledge and belief, I have properly discharged the

responsibilities set out in Monitor's *NHS Foundation Trust Accounting Officer Memorandum*.

Signed.....

Chief Executive

Date: xx May 20xx



## **Annex 6 to Chapter 7: Model Annual Governance Statement**

[The wording which is not in square brackets in this pro forma AGS should be replicated in every AGS and the words in square brackets should be amended and expanded as appropriate to the body in question.]

### **Scope of responsibility**

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the NHS foundation trust's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me. I am also responsible for ensuring that the NHS foundation trust is administered prudently and economically and that resources are applied efficiently and effectively. I also acknowledge my responsibilities as set out in the *NHS Foundation Trust Accounting Officer Memorandum*.

### **The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the policies, aims and objectives of [insert name of provider] NHS Foundation Trust, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in [insert name of provider] NHS Foundation Trust for the year ended 31 March 20xx and up to the date of approval of the annual report and accounts.

### **Capacity to handle risk**

[Describe the key ways in which:

- leadership is given to the risk management process; and
- staff are trained or equipped to manage risk in a way appropriate to their authority and duties. Include comment on guidance provided to them and ways in which you seek to learn from good practice.]

### **The risk and control framework**

[Describe the key elements of the risk management strategy, including the way in which risk (or change in risk) is identified, evaluated, and controlled. Include mention of how risk appetites are determined. Explicitly describe the key elements of the quality governance arrangements, including how the

quality of performance information is assessed and how assurance is obtained routinely on compliance with CQC registration requirements. Explicitly include how risks to data security are being managed and controlled as part of this process. Include a brief description of the organisation's major risks, including significant clinical risks, separately identifying in-year and future risks, how they are/will be managed and mitigated and how outcomes are/will be assessed.]

[Include a description of the principal risks to compliance with the NHS foundation trust licence condition 4 (FT governance) and actions identified to mitigate these risks, particularly in relation to:

- the effectiveness of governance structures,
- the responsibilities of directors and subcommittees;
- reporting lines and accountabilities between the board, its subcommittees and the executive team;
- the submission of timely and accurate information to assess risks to compliance with the trust's licence; and
- the degree and rigour of oversight the board has over the trust's performance.]

[Describe the key ways that the trust is able to assure itself of the validity of its Corporate Governance Statement, required under NHS foundation trust condition 4(8)(b)]

[Describe key ways in which risk management is embedded in the activity of the organisation. For example, set out the ways in which equality impact assessments are integrated into core trust business or how incident reporting is openly encouraged and handled across the trust.]

[Describe the key elements of the way in which public stakeholders are involved in managing risks which impact on them.]

The foundation trust is fully /is not fully compliant with the registration requirements of the Care Quality Commission.

As an employer with staff entitled to membership of the NHS Pension Scheme, control measures are in place to ensure all employer obligations contained within the Scheme regulations are complied with. This includes ensuring that deductions from salary, employer's contributions and payments into the Scheme are in accordance with the Scheme rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations.

Control measures are in place to ensure that all the organisation's obligations under equality, diversity and human rights legislation are complied with.

The foundation trust has undertaken risk assessments and Carbon Reduction Delivery Plans are in place in accordance with emergency preparedness and civil contingency requirements, as based on UKCIP 2009 weather projects, to ensure that this organisation's obligations under the Climate Change Act and the Adaptation Reporting requirements are complied with.

### **Review of economy, efficiency and effectiveness of the use of resources**

[Describe the key process that has been applied to ensure that resources are used economically, efficiently and effectively, including some comment on the role of the board, internal audit and any other review or assurance mechanisms.]

### **Information governance**

[Describe any serious incidents relating to information governance including data loss or confidentiality breach. As a minimum this should include details of any incidents classified as Level 2 in the Information Governance Incident Reporting Tool. For these cases the foundation trust should also disclose whether these cases have been reported to the Information Commissioner's Office (ICO) and detail any action taken by the ICO.]

### **Annual Quality Report**

The directors are required under the Health Act 2009 and the National Health Service (Quality Accounts) Regulations 2010 (as amended) to prepare Quality Accounts for each financial year. Monitor has issued guidance to NHS foundation trust boards on the form and content of annual Quality Reports which incorporate the above legal requirements in the *NHS Foundation Trust Annual Reporting Manual*.

[Brief description of steps which have been put in place to assure the board that the Quality Report presents a balanced view and that there are appropriate controls in place to ensure the accuracy of data

These steps would cover areas such as:

- governance and leadership (including processes to ensure the Quality Report presents a balanced view);
- the role of policies and plans in ensuring quality of care provided;
- systems and processes;

- people and skills; and
- data use and reporting (comments on the systems in place to review and report the quality metrics, focusing on both data collection and reporting)

In particular this should explain how the foundation trust assures the quality and accuracy of elective waiting time data, and the risks to the quality and accuracy of this data]

### **Review of effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, clinical audit and the executive managers and clinical leads within the NHS foundation trust who have responsibility for the development and maintenance of the internal control framework. I have drawn on the content of the quality report attached to this Annual report and other performance information available to me. My review is also informed by comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board, the audit committee [and risk/ clinical governance/ quality committee, if appropriate] and a plan to address weaknesses and ensure continuous improvement of the system is in place.

[Describe the process that has been applied in maintaining and reviewing the effectiveness of the system of internal control, including some comment on the role and conclusions of:

- the board;
- the audit committee;
- if relevant, the risk/ clinical governance/ quality committee/risk managers/risk improvement manager;
- clinical audit;
- internal audit; and
- other explicit review/assurance mechanisms.

Include an outline of the actions taken, or proposed to deal with any significant internal control issues and gaps in control, if applicable.]

**Conclusion**

[state either that no significant internal control issues have been identified or make specific reference to those significant internal control issues which have been identified in the body of the AGS above]

Signed.....

Chief Executive

Date: xx May 20xx

## Annex 7 to Chapter 7: Monitor’s Quality Governance Framework

**Our definition of quality governance is as follows:**

Quality governance is the combination of structures and processes at and below board level to lead on trust-wide quality performance including:

- ensuring required standards are achieved
- investigating and taking action on sub-standard performance
- planning and driving continuous improvement
- identifying, sharing and ensuring delivery of best practice and
- identifying and managing risks to quality of care.

### Quality governance framework

1. Strategy	Example good practice
<p><b>1a: Does quality drive the trust’s strategy?</b></p>	<ul style="list-style-type: none"> <li>• Quality is embedded in the trust’s overall strategy               <ul style="list-style-type: none"> <li>- The trust’s strategy comprises a small number of ambitious trust-wide quality goals covering safety, clinical outcomes and patient experience which drive year on year improvement</li> <li>- Quality goals reflect local as well as national priorities, reflecting what is relevant to patient and staff</li> <li>- Quality goals are selected to have the highest possible impact across the overall trust</li> <li>- Wherever possible, quality goals are specific, measurable and time-bound</li> <li>- Overall trust-wide quality goals link directly to goals in divisions/services (which will be tailored to the specific service)</li> <li>- There is a clear action plan for achieving the quality goals, with designated lead and timeframes</li> </ul> </li> <li>• Applicants are able to demonstrate that the quality goals are effectively communicated and well-understood across the trust and the community it serves</li> <li>• The board regularly tracks performance relative to quality goals</li> </ul>

<p><b>1b: Is the board sufficiently aware of potential risks to quality?</b></p>	<ul style="list-style-type: none"> <li>• The board regularly assesses and understands current and future risks to quality and is taking steps to address them</li> <li>• The board regularly reviews quality risks in an up-to-date risk register</li> <li>• The board risk register is supported and fed by quality issues captured in directorate/service risk registers</li> <li>• The risk register covers potential future external risks to quality (eg, new techniques/technologies, competitive landscape, demographics, policy change, funding, regulatory landscape) as well as internal risks</li> <li>• There is clear evidence of action to mitigate risks to quality</li> <li>• Proposed initiatives are rated according to their potential impact on quality (eg clinical staff cuts would likely receive a high risk assessment)</li> <li>• Initiatives with significant potential to impact quality are supported by a detailed assessment that could include: <ul style="list-style-type: none"> <li>- 'Bottom-up' analysis of where waste exists in current processes and how it can be reduced without impacting quality (eg, Lean)</li> <li>- Internal and external benchmarking of relevant operational efficiency metrics (of which nurse/bed ratio, average length of stay, bed occupancy, bed density and doctors/bed are examples which can be markers of quality)</li> <li>- Historical evidence illustrating prior experience in making operational changes without negatively impacting quality (eg impact of previous changes to nurse/bed ratio on patient complaints)</li> </ul> </li> <li>• The board is assured that initiatives have been assessed for quality</li> <li>• All initiatives are accepted and understood by clinicians</li> <li>• There is clear subsequent ownership (eg relevant clinical director)</li> <li>• There is an appropriate mechanism in place for capturing front-line staff concerns, including a defined whistle-blower policy</li> <li>• Initiatives' impact on quality is monitored on an ongoing basis (post-implementation)</li> <li>• Key measures of quality and early warning indicators identified for each initiative</li> <li>• Quality measures monitored before and after implementation</li> <li>• Mitigating action taken where necessary</li> </ul>
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2. Capabilities and culture	Example good practice
<p><b>2a. Does the board have the necessary leadership and skills and knowledge to ensure delivery of the quality agenda?</b></p>	<ul style="list-style-type: none"> <li>• The board is assured that quality governance is subject to rigorous challenge, including full NED engagement and review (either through participation in Audit Committee or relevant quality-focused committees and sub-committees)</li> <li>• The capabilities required in relation to delivering good quality governance are reflected in the make-up of the board</li> <li>• Board members are able to: <ul style="list-style-type: none"> <li>- Describe the trust's top three quality-related priorities</li> <li>- Identify well- and poor-performing services in relation to quality, and actions the trust is taking to address them,</li> <li>- Explain how it uses external benchmarks to assess quality in the organisation (eg adherence to NICE guidelines, recognised Royal College or Faculty measures).</li> <li>- Understand the purpose of each metric they review, be able to interpret them and draw conclusions from them</li> <li>- Be clear about basic processes and structures of quality governance</li> <li>- Feel they have the information and confidence to challenge data</li> <li>- Be clear about when it is necessary to seek external assurances on quality, eg how and when it will access independent advice on clinical matters.</li> </ul> </li> <li>• Applicants are able to give specific examples of when the board has had a significant impact on improving quality performance (eg must provide evidence of the board's role in leading on quality)</li> <li>• The board conducts regular self-assessments to test its skills and capabilities; and has a succession plan to ensure they are maintained</li> <li>• Board members have attended training sessions covering the core elements of quality governance and continuous improvement</li> </ul>



<p><b>2b. Does the board promote a quality-focused culture throughout the trust?</b></p>	<ul style="list-style-type: none"> <li>• The board takes an active leadership role on quality</li> <li>• The board takes a proactive approach to improving quality (eg it actively seeks to apply lessons learnt in other trusts and external organisations)</li> <li>• The board regularly commits resources (time and money) to delivering quality initiatives</li> <li>• The board is actively engaged in the delivery of quality improvement initiatives (eg some initiatives led personally by board members)</li> <li>• The board encourages staff empowerment on quality</li> <li>• Staff are encouraged to participate in quality / continuous improvement training and development</li> <li>• Staff feel comfortable reporting harm and errors (these are seen as the basis for learning, rather than punishment)</li> <li>• Staff are entrusted with delivering the quality improvement initiatives they have identified (and held to account for delivery)</li> <li>• Internal communications (eg monthly newsletter, intranet, notice boards) regularly feature articles on quality</li> </ul>
<p><b>3. Structures and processes</b></p>	<p><b>Example good practice</b></p>
<p><b>3a. Are there clear roles and accountabilities in relation to quality governance?</b></p>	<ul style="list-style-type: none"> <li>• Each and every board member understand their ultimate accountability for quality</li> <li>• There is a clear organisation structure that cascades responsibility for delivering quality performance from 'board to ward to board' (and there are specified owners in-post and actively fulfilling their responsibilities)</li> <li>• Quality is a core part of main board meetings, both as a standing agenda item and as an integrated element of all major discussions and decisions</li> <li>• Quality performance is discussed in more detail each month by a quality-focused board sub-committee with a stable, regularly attending membership</li> </ul>

<p><b>3b: Are there clearly defined, well understood processes for escalating and resolving issues and managing performance?</b></p>	<ul style="list-style-type: none"> <li>• Boards are clear about the processes for escalating quality performance issues to the board <ul style="list-style-type: none"> <li>- Processes are documented</li> <li>- There are agreed rules determining which issues should be escalated. These rules cover, amongst other issues, escalation of serious untoward incidents and complaints.</li> </ul> </li> <li>• Robust action plans are put in place to address quality performance issues (eg, including issues arising from serious untoward incidents and complaints). With actions having: <ul style="list-style-type: none"> <li>- Designated owners and time frames</li> <li>- Regular follow-ups at subsequent board meetings</li> </ul> </li> <li>• Lessons from quality performance issues are well-documented and shared across the trust on a regular, timely basis, leading to rapid implementation at scale of good-practice</li> <li>• There is a well-functioning, impactful clinical and internal audit process in relation to quality governance, with clear evidence of action to resolve audit concerns <ul style="list-style-type: none"> <li>- Continuous rolling programme that measures and improves quality</li> <li>- Action plans completed from audit</li> <li>- Re-audits undertaken to assess improvement</li> </ul> </li> <li>• A ‘whistle-blower’/error reporting process is defined and communicated to staff; and staff are prepared if necessary to blow the whistle</li> <li>• There is a performance management system with clinical governance policies for addressing under-performance and recognising and incentivising good performance at individual, team and service line levels</li> </ul>
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<p><b>3c: Does the board actively engage patients, staff and other key stakeholders on quality?</b></p>	<ul style="list-style-type: none"> <li>• Quality outcomes are made public (and accessible) regularly, and include objective coverage of both good and bad performance</li> <li>• The board actively engages patients on quality, for example: <ul style="list-style-type: none"> <li>- Patient feedback is actively solicited, made easy to give and based on validated tools</li> <li>- Patient views are proactively sought during the design of new pathways and processes</li> <li>- All patient feedback is reviewed on an ongoing basis, with summary reports reviewed regularly and intelligently by the board</li> <li>- The board regularly reviews and interrogates complaints and serious untoward incident data</li> <li>- The board uses a range of approaches to “bring patients into the board room” (eg, face-to-face discussions, video diaries, ward rounds, patient shadowing)</li> </ul> </li> <li>• The board actively engages staff on quality, for example: <ul style="list-style-type: none"> <li>- Staff are encouraged to provide feedback on an ongoing basis, as well as through specific mechanisms (eg, monthly “temperature gauge” plus annual staff survey)</li> <li>- All staff feedback is reviewed on an ongoing basis with summary reports reviewed regularly and intelligently by the board</li> </ul> </li> <li>• The board actively engages all other key stakeholders on quality, for example: <ul style="list-style-type: none"> <li>- Quality performance is clearly communicated to commissioners to enable them to make educated decisions</li> <li>- Feedback from PALS and local Healthwatch groups is considered</li> <li>- For care pathways involving GP and community care, discussions are held with all providers to identify potential issues and ensure overall quality along the pathway</li> <li>- The board is clear about Governors’ involvement in quality governance</li> </ul> </li> </ul>
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4. Measurement	Example good practice
<p><b>4a: Is appropriate quality information being analysed and challenged?</b></p>	<ul style="list-style-type: none"> <li>• The board reviews a monthly ‘dashboard’ of the most important metrics. Good practice dashboards include: <ul style="list-style-type: none"> <li>- Key relevant national priority indicators and regulatory requirements</li> <li>- Selection of other metrics covering safety, clinical effectiveness and patient experience (at least 3 each)</li> <li>- Selected ‘advance warning’ indicators</li> <li>- Adverse event reports/ serious untoward incident reports/ patterns of complaints</li> <li>- Measures of instances of harm (eg Global Trigger Tool)</li> <li>- Monitor’s risk ratings (with risks to future scores highlighted)</li> <li>- Where possible/appropriate, percentage compliance to agreed best-practice pathways</li> <li>- Qualitative descriptions and commentary to back up quantitative information</li> </ul> </li> <li>• The board is able to justify the selected metrics as being: <ul style="list-style-type: none"> <li>- Linked to trust’s overall strategy and priorities</li> <li>- Covering all of the trust’s major focus areas</li> <li>- The best available ones to use</li> <li>- Useful to review</li> </ul> </li> <li>• The board dashboard is backed up by a ‘pyramid’ of more granular reports reviewed by sub-committees, divisional leads and individual service lines</li> <li>• Quality information is analysed and challenged at the individual consultant level</li> <li>• The board dashboard is frequently reviewed and updated to maximise effectiveness of decisions; and in areas lacking useful metrics, the board commits time and resources to developing new metrics</li> </ul>

<p><b>4b: Is the board assured of the robustness of the quality information?</b></p>	<ul style="list-style-type: none"> <li>• There are clearly documented, robust controls to assure ongoing information accuracy, validity and comprehensiveness <ul style="list-style-type: none"> <li>- Each directorate/service has a well-documented, well-functioning process for clinical governance that assures the board of the quality of its data</li> <li>- Clinical audit programme is driven by national audits, with processes for initiating additional audits as a result of identification of local risks (eg incidents)</li> <li>- Electronic systems are used where possible, generating reliable reports with minimal ongoing effort</li> <li>- Information can be traced to source and is signed-off by owners</li> </ul> </li> <li>• There is clear evidence of action to resolve audit concerns <ul style="list-style-type: none"> <li>- Action plans are completed from audit (and subject to regular follow-up reviews)</li> <li>- Re-audits are undertaken to assess performance improvement</li> </ul> </li> <li>• There are no major concerns with coding accuracy performance</li> </ul>
<p><b>4c: Is quality information being used effectively?</b></p>	<ul style="list-style-type: none"> <li>• Information in Quality Reports is displayed clearly and consistently</li> <li>• Information is compared with target levels of performance (in conjunction with a R/A/G rating), historic own performance and external benchmarks (where available and helpful)</li> <li>• Information being reviewed must be the most recent available, and recent enough to be relevant</li> <li>• 'On demand' data is available for the highest priority metrics</li> <li>• Information is 'humanised'/personalised where possible (eg unexpected deaths shown as an absolute number, not embedded in a mortality rate)</li> <li>• Trust is able to demonstrate how reviewing information has resulted in actions which have successfully improved quality performance</li> </ul>

## **Annex 8 to Chapter 7: Off-payroll arrangements disclosure requirements**

As part of the remuneration report, NHS foundation trusts should present the following data on their highly paid and/or senior off-payroll engagements. ***[This section may need updating for 2015/16 if HM Treasury change the requirements]***

- 1. For all off-payroll engagements as of 31 March 2016, for more than £220 per day and that last for longer than six months:**
  - the total number of existing engagements as of 31 March 2016;
  - the number that have existed for less than one year at time of reporting;
  - the number that have existed for between one and two years at time of reporting;
  - the number that have existed for between two and three years at time of reporting;
  - the number that have existed for between three and four years at time of reporting;
  - the number that have existed for four or more years at time of reporting; and
  - declaration that all existing off-payroll engagements, outlined above, have at some point been subject to a risk based assessment as to whether assurance needs to be sought that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

Reporting of this should follow the format of Table 1 below.

- 2. For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than six months:**
  - the number of new engagements, or those that reached six months in duration, during the time period;
  - the number of these engagements which include contractual clauses giving the trust the right to request assurance in relation to income tax and National Insurance obligations;
  - the number for whom assurance has been requested;
  - the number for whom assurance has been requested and received;

- the number for whom assurance has been requested but not received; and
- the number that have been terminated as a result of assurance not being received.

In any cases where, exceptionally, the trust has engaged without including contractual clauses allowing it to seek assurance as to their tax obligations – or where assurance has been requested and not received, without a contract termination – the trust should set out the reasons for this.

Where an individual leaves after assurance is requested but before assurance is received this should be included within ‘Number for whom assurance has not been received’.

Personal details of all engagements where assurance is requested but not received, for whatever reason (except where the deadline for providing assurance has not yet passed) should be passed to HMRC’s tax evasion hotline. Trusts should be aware that they will not be informed by HMRC of the results of any investigation it may undertake and therefore trusts cannot use this referral as part of their assurance process.

Instances where trusts are still waiting for information from the individual at the time of reporting should be reported as ‘Number for whom assurance has not been received’.

Reporting of this should follow the format of Table 2 below.

HM Treasury expects that the number for whom assurance has not been received will be small as cases where assurance has not been received should generally be resolved by the year end, and by publication of annual report and accounts at the latest.

**3. For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2015 and 31 March 2016 trusts must also disclose:**

- the number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year;
- details of the exceptional circumstances that led to each of these engagements;
- details of the length of time each of these exceptional engagements lasted; and
- the number of individuals that have been deemed ‘board

members and/or senior officials with significant financial responsibility' during the financial year. This figure **must** include both off-payroll and on-payroll engagements.

Reporting of this should follow the format of Table 3 (below).

There should only be a very small number of off-payroll engagement of board members and/or senior officials with significant financial responsibility.

As the total figure includes both on-payroll and off-payroll engagements, no entries here should be blank or zero.

### Table formats

**Table 1: For all off-payroll engagements as of 31 March 2016, for more than £220 per day and that last for longer than six months**

No. of existing engagements as of 31 March 2016	
Of which...	
No. that have existed for less than one year at time of reporting.	
No. that have existed for between one and two years at time of reporting.	
No. that have existed for between two and three years at time of reporting.	
No. that have existed for between three and four years at time of reporting.	
No. that have existed for four or more years at time of reporting.	

Confirmation that all existing off-payroll engagements, outlined above, have at some point been subject to a risk based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.
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**Table 2: For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than six months**

No. of new engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016	
No. of the above which include contractual clauses giving the trust the right to request assurance in	



relation to income tax and National Insurance obligations	
No. for whom assurance has been requested	
Of which...	
No. for whom assurance has been received	
No. for whom assurance has not been received	
No. that have been terminated as a result of assurance not being received.	

In any cases where, exceptionally, the trust has engaged without including contractual clauses allowing the trust to seek assurance as to their tax obligations – or where assurance has been requested and not received, without a contract termination – the trust should set out the reasons for this.

Where an individual leaves after assurance is requested but before assurance is received this should be included within ‘Number for whom assurance has not been received’.

Personal details of all engagements where assurance is requested but not received, for whatever reason, except where the deadline for providing assurance has not yet passed, should be passed to HMRC’s tax evasion hotline.

Instances where trusts are still waiting for information from the individual at the time of reporting should be reported as ‘Number for whom assurance has not been received’.

**Table 3: For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2015 and 31 March 2016**

Number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	
Number of individuals that have been deemed ‘board members and/or senior officials with significant financial responsibility’ during the financial year. This figure <b>must</b> include both off-payroll and on-payroll engagements.	

In any cases where individuals are included within the first row of this table the trust should set out:

- Details of the exceptional circumstances that led to each of these engagements.
- Details of the length of time each of these exceptional engagements lasted.

## Annex 9 to Chapter 7: Fair Pay Multiple – requirements published by HM Treasury

Foundation trusts must report:

- (a) the median remuneration of all staff
- (b) the mid-point of the banded remuneration (remuneration includes that paid for work other than as a director) of the highest paid director, whether or not this is the Accounting Officer or Chief Executive and
- (c) the ratio between the median remuneration of the reporting entity's staff and the highest paid director figure.

The calculation is based on the full-time equivalent staff of the reporting entity at the reporting period end date on an annualised basis. Where there is a sharing arrangement, it is cost to the entity of an individual that identifies them as "highest paid" and not the total of that individual's remuneration.

Termination benefits must be excluded from the calculation of the highest-paid director's/Member's salary to avoid distorting the ratio.

The following is an extract from the Public Expenditure System (PES) paper (2014) 11 published by HM Treasury which sets out disclosure requirements in this area but is not available publicly. ***[This section may need updating for 2015/16 if HM Treasury change the requirements]***

For 'Department' please substitute 'Foundation trust'.

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15.1 Departments should include in their Annual Report and Accounts a narrative highlighting the reasons for any variance in year-on-year multiples. This is because:

- it describes the purpose of including the ratios, and what they mean;
- it ensures transparency in executive remuneration;
- it allows citizens to hold government to account for their use of public funds; and
- it provides departments an opportunity to monitor their own remuneration and note any adverse or anomalous trends.

15.2 The narrative should be concise and clearly linked to the figures disclosed in the remuneration report, and use terms that are easily understandable by the public.

15.3 The narrative should be introduced by the following text:

"Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest paid director in [the organisation] in the financial year 201X-1Y was £xx (201W-1X, £xx). This was – times (201W-1X,-) the median remuneration of the workforce, which was £xx (201W-1X, £xx).

In 201X-1Y, xx (201W-1X, xx) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £xx to £xx (201W-1X £xx-£xx)

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.”

15.4 It should then be followed by a concise and factual explanation of the changes on either side of the ratio, taking into account where relevant:

- Adjustment to the number or composition of the general workforce (e.g. through restructuring, downsizing and outsourcing);
- A change to the remuneration of the most highly paid director. Departments should note that this may not necessarily be an increase to base pay, but a change in taxable expenses or allowances. Where the allowance is temporary (e.g. relocation allowance), departments should note this and its likely impact on the pay multiple.
- A change of the most highly paid director (e.g. a new appointment, or the previously highest paid post having been vacated and/or eliminated); and
- The impact of any pay freeze on the multiple (e.g. senior pay freeze that does not affect the majority of staff.
- The relationship between the remuneration of most highly paid director and that of employees who are not directors but receive remuneration in excess of the most highly paid director.

15.5 The above list is not exhaustive and should be treated only as general guidance. It is not intended to act as a checklist of justifications for higher multiples.



Making the health sector  
work for patients

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