



Department
of Health

Department of Health Group Accounting Manual 2016-17

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Published to gov.uk, in PDF format only.

www.gov.uk/dh

Department of Health Group Accounting Manual 2016-17

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Contents

Summary of Changes.....	11
Introduction.....	12
Format of the Manual.....	13
1. Statutory Requirements for the Annual Report and Accounts.....	15
Annual Report and Accounts Framework.....	15
Group Accounting Manual and relationship to other guidance.....	16
Accounts submission and audit.....	17
Changes in Entity Status – Reporting Requirements.....	17
Chapter 1 Annex 1 - Accounts Directions (structure).....	19
Chapter 1 Annex 2: Laying annual report and accounts before Parliament.....	21
Statutory requirement.....	21
The process of laying papers before Parliament.....	21
Deadlines for laying documents before Parliament.....	23
Chapter 1 Annex 3: Reporting requirements on change of status.....	26
Changes to NHS Trusts.....	26
NHS foundation trusts in their first period of operation.....	26
NHS foundation trusts in their final period of operation.....	28
Changes to Commissioning Groups.....	31
Changes to Arm’s Length Bodies.....	31
2. The Annual Report.....	33
Introduction.....	33
General Principles.....	33
Accounting/Accountable Officer Responsibilities.....	33
CCG Governance.....	34
Performance Report.....	34
Overview.....	34
Performance analysis.....	35
The Accountability Report.....	35
Scope of the accountability report.....	35
Corporate governance report.....	36
Statement of Accounting/Accountable Officer’s responsibilities.....	37
Governance statement.....	38

Remuneration and staff report.....	38
Remuneration policy	39
Remuneration Report Tables	39
Compensation on early retirement or for loss of office	40
Payments to past directors	40
Fair Pay Disclosure	40
Staff report	42
Parliamentary accountability and audit report.....	43
Publication of the Annual Report and Accounts	45
Entities that do not lay accounts before Parliament	45
Separate strategic report and supplementary material	45
Chapter 2 CCG Appendix 1: Additional Requirements for CCGs	47
Business information.....	47
Details of Members of the Membership Body and Governing Body.....	47
Chapter 2 CCG Appendix 2 – Pension Disclosures	48
Introduction	48
Prior Year Comparatives.....	48
Table 1: Governing Body Member is a Medical Practitioner	49
Table 2: Governing Body Member is not a Medical Practitioner	51
Chapter 2 Annex 1 – Annual Report and Accounts Outline Structure	53
Chapter 2 Annex 2 - Salary and Pension disclosure tables: information subject to audit	54
Salaries and allowances	54
Content of tables: salaries and allowances.....	55
Content of tables: pensions	58
Payments for loss of office.....	59
Payments to past senior managers.....	59
Chapter 2 Annex 3 – Exit packages and severance payments	61
Introduction	61
Non-compulsory departures.....	61
Chapter 2 Annex 4 – “off-payroll” engagements.....	65
Introduction	65
Inclusion in Annual Reports	65
Guidance	65
3. Financial Reporting Requirements.....	71
Government Financial Reporting Manual (<i>FReM</i>).....	71

Generally accepted accounting practice (GAAP).....	71
International Financial Reporting Standards (IFRS).....	71
Companies Act 2006 requirements.....	72
Users of the annual report and accounts	72
Chapter 3 Annex 1: Standards and applicability to the Departmental Group.....	74
International Accounting Standards (IAS).....	74
International Financial Reporting Standards (IFRS).....	88
Standards Interpretation Committee (SIC) Interpretations	92
IFRS Interpretations Committee (IFRIC) Interpretations	95
Chapter 3 Annex 2: Accounting Standards and amendments issued but not yet adopted in the <i>FReM</i>	101
Standards issued or amended but not yet adopted in <i>FReM</i>	101
Chapter 3 Annex 3: Companies Act 2006 Requirements	102
Chapter 3 Annex 4: Other Relevant Accounting Pronouncements.....	104
Chapter 3 Annex 5: Departures from the <i>FReM</i>	105
Chapter 3 Annex 6: Main differences between NHS trust and NHS foundation trust accounts	106
Notes to the accounts	106
4. Financial Statements: Accounting Policy and application of standards.....	107
Introduction.....	107
Annual Accounts Format	107
Primary Financial Statements	107
Notes relevant to the financial statements	107
Example Accounts Format.....	108
Summarisation schedules.....	108
True and fair view	109
Accounting convention	109
Accounting policies and materiality	109
Key sources of judgement and estimation uncertainty.....	110
Errors in the financial statements.....	111
Changes in accounting policy	111
Prior period adjustments (PPAs).....	111
Gross and Net accounting	112
Comparative amounts.....	113
Events after the reporting period.....	113
Group Accounting Standards	113

Consolidated Accounts	113
Subsidiaries (IFRS 10).....	115
Associates (IAS 28)	116
Joint arrangements (IFRS 11).....	117
Disclosure of interests in other entities (IFRS 12).....	117
Interests in entities not accounted for under IFRS 10 and IFRS 11	118
Business Combinations	118
Acquisition of a business from outside the WGA boundary	118
Acquisition/Transfer of a business from inside the WGA boundary	118
Transfer by absorption	119
Business combinations disclosure	121
Going concern	122
Chapter 4 Annex 1 – Accounting for the Better Care Fund	124
Introduction	124
Guidance – key points summary.....	125
Establishment of the Fund: “Section 75” agreements	126
Section 75 agreements: accounting issues.....	127
Application of IFRS 11 to BCF Pooled Budgets	129
Accounting: Required steps:	130
Cash and expenditure.....	131
Additional BCF contributions (contributions above the minimum allocation).....	132
Quarterly reporting to members and providers, AoB arrangements.....	133
Chapter 4 Annex 2: Pooled Budgets	145
5. Statement of Comprehensive Income/Net Expenditure (SoCI/SoCNE)	146
Introduction.....	146
Income.....	146
Income from patient care activities (Providers)	147
Partially completed treatments spells and maternity pathway transactions	147
Government grants (IAS 20) and donations.....	148
Profits and losses on disposal of non-current assets	149
Overseas visitors	149
Operating expenses	149
Analysis of operating expenses	149
Employee benefits expense.....	150
Retirement benefits.....	150

Termination benefits	150
PDC dividends payable (Providers)	151
Analysis of income and expenditure: programme and administration	152
Notes to the SoCNE	153
Operating segments.....	153
Discontinued operations	153
Income generation activities	154
Income	154
Operating expenses.....	154
Employee benefits	155
Ill-health retirements	156
Pension costs	156
Investment revenue	156
Other gains and losses	157
Income from activities arising from commissioner requested services (NHS foundation trusts).....	157
Directors' remuneration and other benefits (NHS foundation trusts).....	157
Chapter 5 Annex 1: Consultancy	159
6. Statement of Financial Position (SoFP)	161
Format of the SoFP	161
Taxpayers Equity and Other Reserves	161
Notes to the Statement of Financial Position.....	162
Property, plant and equipment.....	162
Heritage assets	168
Intangible Non-Current assets	168
Impairment of property, plant and equipment, intangible assets and heritage assets (IAS 36).....	169
Borrowing costs (IAS 23)	170
Leased Assets	171
Investment property (IAS 40)	171
Non-current assets held for sale	172
Financial Instruments.....	172
Inventories	173
Trade and other receivables	173
Receivables past their due date but not impaired	173
Provision for impairment of receivables	173

Other current assets	173
Cash and cash equivalents	173
Provisions	174
Trade and other payables	175
Other liabilities	176
Defined Benefit Pension Schemes.....	176
Chapter 6 Annex 1: Financial Instruments.....	177
Introduction	177
Financial instruments	177
Derivatives	179
Financial guarantees.....	180
Hedge instruments.....	181
Recognition and de-recognition	181
Measurement and classification.....	181
Impairments	183
Disclosures	183
Chapter 6 Annex 2 - Treasury Discount Rates	185
General Provisions.....	185
Post-Employment Benefits Provisions	185
Accounting – Both Categories of Discount Rate	186
Financial instruments	186
Chapter 6 Annex 3 - Valuation Issues	188
Modern Equivalent Asset (MEA) valuations.....	188
Recognition and measurement	188
Disclosure	189
Equipment.....	190
Chapter 6 Annex 4: Accounting requirements for PFI/LIFT schemes.....	191
NHS LIFT investments.....	191
PFI and LIFT - additional information.....	191
Recognition of assets under PPP or PFI arrangements.....	192
Disclosures	192
Service concession arrangements in budgets	194
Budget adjustment in summarisation schedules	195
7. Other Statements and disclosure requirements.....	197
Statement of Changes in Taxpayers Equity (SoCTE)	197

Statement of Cash Flows (SoCF).....	197
Other Notes to the Accounts	198
Pooled budgets.....	198
Better Payment Practice code – measure of compliance.....	198
The Late Payment of Commercial Debts (Interest) Act 1998.....	198
Capital and Other Commitments.....	199
Intra Government and other balances.....	199
Finance lease obligations (as lessee).....	199
Finance lease receivables (as lessor).....	200
Contingencies	200
Events after the reporting period.....	200
Related party transactions	201
Losses and special payments	201
Third party assets	202
Chapter 7: CCG Appendix.....	203
Performance measures.....	203
Chapter 7: NHS Trusts Appendix	206
Impact of IFRS treatment.....	206
Performance information.....	206

Summary of Changes

- (i) For ease of reference, the key changes in this document compared to the *NHS Foundation Trust Annual Reporting Manual 2015-16 (ARM 2015-16)* and the *Department of Health Group Manual for Accounts 2015-16 (MfA 2015-16)* are set out below. The comparisons are to the final published documents.
- (ii) Since the publication of the *ARM 2015-16* and the *MfA 2015-16*, an exercise has been undertaken to merge the two documents, to provide a single accounting guidance document for the whole of the Departmental Group, the *Department of Health Group Accounting Manual 2016-17 (GAM 2016-17)*. The table below refers to changes agreed to the content of the previous guides, rather than changes made to the structure of the document following the merger (explained in paragraphs (x) to (xii)).

	Area of Change	GAM 2016-17	ARM 2015-16	MfA 2015- 16
Main Changes				
1.	Following the introduction of the parliamentary accountability report in 2015/16, the details of requirements has been updated to clearly explain the options that are available to group bodies, and the mandatory elements of the report.	Para 2.56 to 2.61	N/A	Para 2.50
2.	The FReM divergence applicable to NHS foundation trusts, requiring separate director benefit disclosures under s412 of the Companies Act 2006 has been removed. The s412 disclosures are covered by remuneration report and other disclosures.	Chapter 3 Annex 1 (IAS 24), Chapter 3 Annex 3 Para 5.72 to 5.74.	Para 2.7 (table, IAS 24) Para 2.10 Para 4.47 to 4.50	Para 3.86 (table, IAS 24)
3.	The FReM divergence applicable to NHS foundation trusts, requiring the use of a market discount rate for the measurement of fair value of future cash flows from financial instruments, has been removed.	Chapter 3 Annex 1 (IAS 39)	Para. 5.62	Para 3.86 (table, IAS 39)
3.	The de minimus limit for capitalising individual/grouped assets of £5,000 applies across all entities within the	Para 6.26	Para 5.18	Para 4.74

	accounting boundary. The scope for some sectors to locally set different levels has been removed.			
Other changes				
4.	The reference to sources of information for pension disclosure has been revised, to cover NHS Pensions Scheme, Principal Civil Service Pension Scheme as well as other disclosure requirements.	Para 5.64 to 5.66	Para 4.55 to 4.56	Para 4.41

Introduction

- (iii) The Department of Health and bodies within the Department of Health accounting boundary have a statutory requirement to produce an annual report and accounts following the end of the financial year. Additionally, the department must produce a consolidation of accounts data for the bodies within the accounting boundary (subsequently referenced as the “departmental accounting group”, individual entities referred to as “departmental group bodies”).
- (iv) The departmental accounting group is defined in law by Designation Orders made under the Government Resources and Accounts Act 2000 (GRAA). The current Order is The Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2014. The GRAA requires Group bodies to:
- prepare such financial information in relation to the year as HM Treasury may request
 - present the information in such form as HM Treasury may direct
 - arrange for the information to be audited, and
 - deliver the information to HM Treasury, in such manner and by such date in the next year as HM Treasury may direct.
- (v) As a relevant authority, the Department of Health has the power to set the accounts direction for departmental group bodies (with some exceptions, see paragraph (vi) to (ix) below) This authority including the production of an annual report and accounts manual which provides specific guidance on how the departmental group bodies should complete their accounts within the Financial Reporting Framework (see Chapter 1: Financial reporting Framework).
- (vi) The requirements for NHS foundation trusts are set out in paragraphs 24 and 25 of Schedule 7 to the National Health Service Act 2006 (the '2006 Act'). There are three main statutory requirements for an NHS foundation trust in relation to its accounts:

- to keep proper accounts and proper records in such form as the regulator may, with the approval of the Secretary of State, direct
 - 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
 - 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.
- (vii) Monitor (operating as NHS Improvement) sets the accounts direction to NHS foundation trusts, and this will be set via the *NHS Foundation Trust Annual Reporting Manual 2016 to 17 (ARM 2016-17)*. Due to the merger between the *ARM* and the *MFA*, this manual is now directly applicable to NHS foundation trusts, with the exception of guidance set out in Chapter 2. Annual reporting guidance will continue to be published alongside the accounts direction in the *ARM 2016-17*
- (viii) Monitor (operating as NHS Improvement) will continue to prepare a sector-specific consolidated account that represents a sub-consolidation from the department's viewpoint, as required by paragraph 17(1), Schedule 8 to the Health and Social Care Act 2012. It follows that financial returns submitted by foundation trusts to NHS Improvement, and the submission of FT consolidated financial data provided by NHS Improvement to the department must be prepared in accordance with accounting policies set out in this manual.
- (ix) NHS England is required to issue Directions to clinical commissioning groups (CCGs) in respect of their annual report and accounts. As the accounts directions need to comply with the *GAM 2016-17*, the content of this manual is applicable to CCGs and to NHS England.

Format of the Manual

- (x) The following chapters in this manual are presented in the order in which one might expect to find the content if reading the finalised annual report and accounts of the compiling entity:
- Chapter 1 provides information on the framework under which the annual report and accounts should be completed;
 - Chapter 2 covers the content of the annual report;
 - Chapter 3 presents the accounting framework;
 - Chapter 4 covers specific accounting policies;

- Chapter 5-7 covers the completion of the financial statements and accompanying disclosure requirements
- (xi) Additional appendices are included within this manual, to supplement the core guidance where there are additional sector specific reporting requirements. These form an integral part of the manual and are organised so as to assist in locating entity specific guidance. (e.g. the CCG corporate governance reporting requirements presented in an appendix to Chapter 2).
- (xii) Annexes are used in this manual to provide further specific background information on the requirements. This is designed to provide useful additional information on more complex issues for those that require it away from the main manual. These can be found after the chapter they relate to (e.g. application of asset valuation methods is explained in an annex to Chapter 6).

1. Statutory Requirements for the Annual Report and Accounts

Annual Report and Accounts Framework

- 1.1. In order to present a true and fair view, the accounts of the Departmental Group must comply with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), unless directed otherwise. The main source of guidance, therefore, will be accounting standards published by the International Accounting Standards Board and supplementary guidance.
- 1.2. The *GAM 2016-17* has been drafted to meet the requirements of the *Government Financial Reporting Manual 2016 to 2017 (FReM)*. The *FReM* is the technical accounting and annual report guide for the preparation public sector accounts (including but not limited to, central government departments, executive agencies and arms length bodies) The *FReM* follows International Financial Reporting Standards (IFRS) and Companies Act requirements. In several important areas, the *FReM* provides interpretation and adaptation of standards to better meet Government's reporting requirements. The *FReM* also details additional disclosures for the public sector.
- 1.3. The *GAM* is a further interpretation of the *FReM*, providing technical guidance to departmental group bodies that specifically addresses the requirements of those within the group. The *FReM* therefore applies alongside the *GAM*. It is expected that those preparing Annual Report and Accounts will consult this manual in the first instance and then refer to the *FReM* and accounting standards where necessary. Other relevant guidance is cross referenced in this manual where appropriate.
- 1.4. ALBs should additionally refer to the relevant illustrative accounts, provided by HMT in supplement to the *FReM*, to ensure the annual report and accounts are presented in the correct format.
- 1.5. The Financial Reporting Advisory Board (FRAB) provides independent accounting advice in respect of public sector bodies to HM Treasury and the equivalent bodies in Scotland and Northern Ireland. Approval is sought from FRAB on changes made to the *FReM* and the Departmental of Health group manuals (*GAM* and *ARM*) before they are published.
- 1.6. Divergences from the *FReM* are approved by FRAB. The current list of divergences is included in **Chapter 3 Annex 5: Departures from the *FReM***.

Group Accounting Manual and relationship to other guidance

- 1.7. The *GAM* is not an accounting textbook and does not repeat IFRS requirements where these can be applied without specific interpretation or adaptation for the NHS. The *GAM* assumes that the user will be conversant with current accounting standards. The *GAM*:
- Forms part of Accounts Directions issued to reporting bodies by the Secretary of State (SofS), by NHS Commissioning Board (NHS England) in the case of CCGs, and by Monitor in the case of NHS foundation trusts, these after approval by SofS – see [Chapter 1 Annex 1 - Accounts Directions \(structure\)](#);
 - Mandates particular accounting treatments where Standards permit a choice, to ensure consistency within the Group;
 - Draws attention to interpretations and adaptations of Standards set out in the *FReM*, usually repeating the required departures from Standards;
 - Highlights specific departures from the *FReM*, as agreed with Treasury, applicable to the users of this manual;
 - Specifies scope, contents and layout of the annual report and accounts, to ensure that these documents meet Treasury expectations and provide consistent data for national summaries and consolidations;
 - Provides detailed accounting guidance in complex and technical areas (e.g. PFI and group reconstruction) where IFRS requirements require consistent application in the NHS context.
- 1.8. This manual will be supplemented, as necessary, by numbered “frequently asked questions” (FAQ) updates over the course of the year. Updates will be posted to the Department of Health group accounting manual area of GOV.UK **[DN: This website has yet to be created. The site will be linked in to this manual when this separate project has been completed]** Any updates issued in this way should be treated as having the same status as guidance issued in this manual. Users should check the website regularly for new guidance under ‘Last Updates’ and ‘[Group Accounting Manual](#)’ **[DN: include correct location when pages are created]**
- 1.9. The following items will be made available subsequent to the *GAM* being issued. These do not form part of the manual, but form part of a wider body of guidance:
- Quarterly monitoring guidance known as the *In-Year Guidance for Financial Monitoring & Accounts and Management Information Forms* for NHS trusts is intended to facilitate completion of the quarterly returns. This guidance will draw on *GAM* guidance and the two sets of guidance will be consistent with each other. The *GAM* is intended to set accounting policy, whereas the *In-Year Guidance for Financial Monitoring & Accounts and Management Information Forms* provides the means of ensuring (a) internal consistency of reporting, and (b) consistency across the NHS, such that figures can be reliably consolidated at the national level

- [Monitor \(operating as NHS Improvement\) will issue accounts templates for NHS foundation trusts which are optional for use and do not form part of its accounts direction and do not form part of the Group Accounting Manual](#)
- [For Month 9: detailed accounts completion guidance for types of entity, including ALBs, is also provided alongside the quarterly monitoring guidance](#)
- [Treasury valuation guidance](#)
- [Treasury public sector spending and reporting](#)
- [Treasury's "Managing Public Money"](#)

Accounts submission and audit

- 1.10. A detailed accounts submission process, showing deadlines and procedures for handling statutory accounts and summarisation schedules (see paragraph 1.11), will be provided by the sector finance leads later in the year. Treasury Public Expenditure System (PES) papers give detailed guidance for those bodies that lay their own Annual Reports and Accounts (ARAs) in Parliament.
- 1.11. Summarisation schedules are the method by which the responsible authorities collect underlying accounts data. The collections allow the sector sub-consolidations, and the Departmental Group consolidation, to be completed. The content within the summarisation schedules must also be compliant with this manual, and be consistent with the entities own annual report and accounts. The term "summarisation schedule" will refer to all of the following, unless otherwise stated:
- The Department of Health Accounts Consolidation Schedule for ALBs
 - The NHS Trust Financial Monitoring and Accounts (FMA) form.
 - The NHS foundation trust consolidation (FTC) form

Changes in Entity Status – Reporting Requirements

- 1.12. Group bodies should familiarise themselves with the additional reporting requirements arising from changes in their status during the financial year. Multiple reports may be required in circumstances where group bodies are newly created, undergo mergers, change status (such as NHS trust to NHS foundation trust, or special health authority to non-departmental public body), or are dissolved during the financial year.
- 1.13. Generally speaking, in situations where changes occur, the following additional requirements will apply:
- Change in status from NHS trust to NHS foundation trust (i.e. upon authorisation as an NHS foundation trust) will require two annual report and accounts, one for the NHS trust

to the date of the change, and one for the foundation trust from the date of the change. The same applies for changes in ALB status.

- Newly established entities will create an annual report and accounts from the date of their establishment. This applies regardless of whether the establishment of the new entity occurred as a result of two (or more) entities dissolving to form a new entity.
- Where entities are dissolved, they will need to produce an annual report and account up to the date of their dissolution. This applies regardless of whether there was a successor body (e.g. as a result of two entities dissolving to form a brand new entity), or whether the dissolution occurs as a result of a takeover of services by another entity.

1.14. Full reporting requirements are described in [Chapter 1 Annex 3: Reporting requirements on change of status](#)

Chapter 1 Annex 1 - Accounts Directions (structure)

Entity	Accounts Direction Determination by:	Accounts Direction Approved by:
Department of Health (own accounts and group consolidation)	HM Treasury	HM Treasury
NHS England (including commissioning sector sub-consolidation)	Department of Health (Secretary of State)	HM Treasury
Monitor (own accounts and NHS foundation trust sub-consolidation)	Department of Health (Secretary of State)	HM Treasury
NHS trusts	Department of Health (Secretary of State)	HM Treasury
NHS foundation trusts	Monitor	Department of Health (Secretary of State)
CCGs	NHS England	Department of Health (Secretary of State)
ALBs	Department of Health (Secretary of State)	HM Treasury

Accounts Directions are made under the following legislation:

Department of Health

Government Accounts and Resources Act 2000, s. 5: Resource Accounts Preparation and s. 7 Other Departmental Accounts

NHS trust accounts

[National Health Service Act 2006 c. 41 Schedule 15: Preparation of annual accounts](#)

FT accounts: paragraph 24 of Schedule 7 to the National Health Service Act 2006 amended

[Health and Social Care Act 2012 c. 7 part 4: Governance and management Section 154](#)

Consolidated FT accounts (s.17) and Monitor's own accounts (s.18)

[Health and Social Care Act 2012 c. 7 Schedule 8: Accounts of NHS foundation trusts](#)

NHS England

[Health and Social Care Act 2012 c. 7 Schedule 1 s.16: Annual Accounts](#)

CCG accounts

[Health and Social Care Act 2012 c. 7 Schedule 2 s.17](#)

and:

[CCG Annual Report Directions \(Chapter A1 of Part 2 of the National Health Service Act 2006 as amended by 14Z15 of the Health and Social Care Act 2012 Reports by clinical commissioning groups\).](#)

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

1. This guidance relates to departmental group bodies required to lay their annual report and accounts before parliament. This includes NHS foundation trusts, ALBs including NHS England, and the core Department, but does not apply to NHS trusts, CCGs, consolidated limited companies or NHS Charities.

Statutory requirement

2. Entities falling within the sectors referred to in paragraph 1 of this annex (from here collectively referred to as departmental group bodies) are required to lay their annual report and accounts, with any report of the auditor on them, before Parliament. Guidance on the form and content of the annual report is included in Chapter 2 of this manual (except for NHS foundation trusts). For NHS foundation trusts, the *ARM 16-17* sets out the format of a foundation trust annual report. This should include the quality report together with the limited assurance opinion on this report.
3. The annual report and accounts laid before Parliament must include the full statutory accounts and not summarised information. The annual report and accounts that are submitted to Parliament to be laid must be one document.
4. Once laid before Parliament the content of the annual report and accounts cannot be changed. Departmental group bodies have the discretion, after laying the document before Parliament, to publish a condensed performance report with supplementary material in lieu of local publication of the full annual report and accounts. Further guidance on supplementary material can be found in Chapter 2, paragraph 2.58 to 2.61 of this manual (or in the *ARM 2016-17*, as applicable).
5. Until the annual report and accounts have been laid before Parliament, nothing can be published.

The process of laying papers before Parliament

6. To prepare the report for laying before Parliament, entities 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 bodies. The physical act of laying the report before Parliament can only be undertaken by the Department of Health Parliamentary Clerk, who will also arrange for laying letters to be prepared.
7. The Journal Office document can be found at:
<http://www.tso.co.uk/documents/presentationToParliament-Publishing.pdf>
8. The submitted ARA 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 entity 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 predominantly 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. The title page should contain, in the following order::
 - a) the full statutory name of the entity; and
 - b) the title of the document (eg, Annual Report and Accounts 2016/17); and
 - c) (1) **NHS foundation trusts**: the wording “Presented to Parliament pursuant to Schedule 7, paragraph 25 (4) (a) of the National Health Service Act 2006.”; or
 - c) (2) **ALBs**: include the relevant wording under which the entity is required to present accounts before parliament – “Presented to Parliament pursuant to Schedule WW, paragraph XX (Y) (Z) of the ‘insert name of applicable Act of Parliament”
- In the rare case where an entity has changed its name after the end of the reporting period, the statutory name of the entity (point a) should be the name that was in place at the end of the reporting period. An extra line should be included on the title page “From 1 April 201X now known as...”, for example where the entity changes its name on 1 April 201X.
- 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 2016/17’. 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 front 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.

Deadlines for laying documents before Parliament

9. All annual reports and accounts must be sent to arrive at the Parliamentary Clerk to allow sufficient time for laying before the parliamentary summer recess. The timetable for submission will be confirmed at a later date. 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 the submission date. It is the responsibility of the entity to ensure its report and accounts are laid.

How to arrange the account to be laid before Parliament

<p>Step 1</p>	<p>You must check that the format of your report is acceptable before 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 MB-SI@dh.gsi.gov.uk. In the subject line, please give the name of your entity 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. Given this is a check that the format is correct, this should be provided in advance of the deadline specified below.</p>
<p>Step 2</p> <p>Documents must arrive by TBC – 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>On the package label, please clearly state the name of your entity. 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 also email a final PDF of the report to be laid to the Department of Health Parliamentary team mailbox MB-SI@dh.gsi.gov.uk. In the subject line, please give the name of your trust and the words “final version”. Your report will not be laid until this PDF has been received.</p>

10. 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.
11. 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.

Checklist of formatting requirements

<p>Make sure you can answer ‘yes’ to each question below. If the answer is “no” to any question below, your report is likely to be rejected for laying.</p>	
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?	
<p>Does the title page only contain:</p> <ul style="list-style-type: none"> a) the full statutory name of the entity; and b) the title of the document (eg, Annual Report and Accounts 2016/17); and c) (1) NHS foundation trusts: the wording “Presented to Parliament pursuant to Schedule 7, paragraph 25 (4) (a) of the National Health Service Act 2006.”; or c) (2) ALBs: include the relevant wording under which the entity is required to present accounts before parliament – “Presented to Parliament pursuant to Schedule WW, paragraph XX (Y) (Z) of the ‘insert name of applicable Act of Parliament’” 	
Does the title page contain no other text or images?	
Is the title of the document exactly the same on the front cover as on the title page and is the font on both a reasonable size?	
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 entity on the package label when sending the hard copies.

Chapter 1 Annex 3: Reporting requirements on change of status

1. This annex provides information to all users on the reporting requirements arising from a change in entity status. Entities should consult the subsection relative to their circumstances. Not all of the guidance included in this annex will apply to every group body.

Changes to NHS Trusts

Attaining NHS foundation trust status

2. The trust is responsible for reporting its financial position for the period it was an NHS trust both prior to and post its authorisation as an NHS foundation trust in accordance with the national timetable issued by the NHS TDA. It is important that all trusts (including those subject to mid-year transactions) adhere to the national timetable.
3. The trust should ensure that there are adequate resources available post authorisation to continue to provide the NHS TDA with robust monthly monitoring information until the financial year end in accordance with the national timetable.
4. The trust should also ensure that there are robust arrangements in place to respond promptly to any queries arising as a result of the reporting requirements or ad hoc queries in respect of the period prior to authorisation.
5. NHS trusts should consult the NHS TDA supplementary guide *NHS Trust Authorised as an NHS Foundation Trust Mid-Year* for details of the full monthly and quarterly reporting requirements. For the equivalent requirements on transition to foundation trust status. see paragraph 7-13.

Other establishment, merger and dissolution guidance

6. Further information regarding the requirements for NHS trust involved in proposed dissolutions and mergers, including requirements for disclosure of management information and completion of accounts summarisation schedules, NHS trusts should consult the relevant supplementary guidance issued by NHS TDA: *Mid-Year NHS Trust Merger with an Existing NHS Foundation Trust* or *Mid-year Dissolution of NHS Trust and Transfer of Functions to Newly Established NHS Trust*.

NHS foundation trusts in their first period of operation

NHS Trusts attaining foundation trust status should also consult the requirements outlined in paragraphs 2 – 5 above.

7. 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 and NHS TDA. 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.

8. 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 annual report and accounts for the final period of NHS trust status must be presented.
9. The annual report, annual accounts and consolidation schedules for the final period of NHS trust status must be prepared in accordance with this manual. Two separate sets of accounts for the final NHS trust period and first period as an NHS foundation trust must be prepared. It is strongly recommended that two separate annual reports are also produced (rather than combined into one) as the corporate governance regimes and reporting frameworks are different for each type of body.
10. 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, issued by NHS Improvement, is also required to be completed. These should be drawn up in accordance with the provisions of this manual.
11. 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 *GAM* as applicable to NHS trusts. The second part-year accounts in respect of the NHS foundation trust must be prepared in accordance with this Manual as applicable to NHS foundation trusts. 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.
12. 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.
13. 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. NHS Improvement and Department of Health do not expect any material difference to occur, and preparers of accounts for foundation trusts in their first period of operation should contact NHS Improvement if they believe any material adjustments are required.

NHS foundation trusts in their final period of operation

Preparation of annual report and accounts

14. 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. Where 31 March is used to reference the end of the reporting period elsewhere in this manual, it should be replaced with the date at which the accounts are being prepared. The final period annual report and accounts should be submitted in line with the DH Group Annual Report and Accounts Plan 2016 to 2017.
15. When an NHS foundation trust ceases to exist and its services, assets and liabilities are transferring to one or more NHS bodies 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 described in the DH Group Annual Report and Accounts Plan 2016 to 2017. In any case, the annual report and accounts can only be finalised once the post-consultation *ARM* and *GAM* for that year has been issued. The receiving body will also be asked to provide a later “Events after the Reporting Period” confirmation to NHS Improvement for the purposes of the consolidated foundation trust accounts and the whole of government accounts.
16. The chief executive of the nominated receiving body referred to in paragraph 15 of this annex 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.
17. NHS foundation trusts are reminded to refer to Chapter 4 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.
18. 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 24 and 25 of this annex provide guidance to a foundation trust in this rare scenario.

Practical arrangements for annual reports and accounts

19. 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.
20. 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 15 and 16 of this annex. 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 18 of this annex.

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

21. The transfer of assets and liabilities to receiving NHS bodies will be accounted for under absorption accounting as set out Chapter 4 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 14 of this annex. 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).
22. 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.
23. Chapter 4 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 [this should agree to the SOFP]</i>		<i>Amounts transferred to:</i>		
		<i>[name of receiving body 1]</i>	<i>[name of receiving body 2]</i>	<i>Total</i>
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)
Net assets/(liabilities)	XXX	YYY	ZZZ	XXX

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

24. The transfer of assets and liabilities to receiving NHS bodies will be accounted for under absorption accounting as set out in chapter 4 of this manual. In the final period accounts the statement of financial position (SoFP) will record nil balances at the year end¹. 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.
25. Chapter 4 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:

¹ Or small balances relating to any residual assets and liabilities which remain in the trust. This guidance assumes that the residual balances will be nil for ease of exposition.

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

Changes to Commissioning Groups

[DN relevant text to be entered here]

Changes to Arm's Length Bodies

Creation of new Arm's Length body

26. Newly established Arm's Length Bodies are required to complete an accounts summarisation schedule, to be submitted to the Department of Health for consolidation into the departmental group accounts. ALBs should also complete an annual report and accounts as described in Chapter 2 of this manual, to be laid before parliament within the indicated timeframe.
27. Where an ALB is established after the beginning of the financial year, it may be expected for the new ALB to complete an annual report and accounts up to a reporting period end of 31 March, although the legislation may specify a different accounting date. There is still a requirement to complete summarisation schedules with the accounting details for the standard financial year of up to 31 March. Where the annual report differs (e.g. a 15-month account), the amended reporting period should be made clear.
28. Where the establishment of the ALB has arisen from a transfer of function, from an existing ALB with the departmental group, and there is an associated transfer in assets, the new ALB must ensure that the disclosure requirements for transfers by absorption accounting are followed, as set out in Chapter 4 of this manual. This especially applies to the summarisation schedules as any transfers should eliminate across the departmental accounting group.

Changes in status

29. The reporting requirements are no different should an ALB change status (eg from Special Health Authority to Non-Departmental Public Body) at the beginning of the financial year. The entity will still be required to submit accounts summarisation schedules and publish an annual report and accounts in line with this manual. There may be an additional requirement to complete an accounts summarisation schedule to clear

out the closing balance from the previous financial year, although discussion should take place with Department of Health as to whether this will be completed by the ALB, or can be done by the department.

30. Where the change in status occurs during the financial year, the ALB should be prepared to complete two summarisation schedules at each submission period, one showing the activity of the ALB up to the point of the change in status, and one showing the activity of the ALB from the date the status changed up to the reporting date.
31. There will still be a requirement to complete an annual report and accounts to be laid before parliament, as outlined in Chapter 2 of this manual. ALBs should discuss the reporting requirements with the department, as depending on the change of status, there may be a requirement to complete two annual reports, or use an extended first period of reporting after the change in status.
32. Should the change in status of an ALB be accompanied by a transfer of functions/assets from another body, the ALB must ensure the requirements of transfers by absorption accounting are followed, see Chapter 4 of this manual. This is especially important when completing summarisation schedules to ensure that any transfers occurring within the departmental accounting group eliminate on consolidation.

Dissolution of Arm's Length Bodies

33. Where an ALB is due to be dissolved after the end of the financial year, the ALB should follow the accounting and annual reporting requirements set out in this manual, as it will be in existence at the reporting date. Arrangements should therefore be put into place to ensure that the reporting deadlines falling after dissolution can still be met.
34. The department will need to complete an accounts summarisation schedule in the next financial year to ensure the balances sheet is cleared to zero, and any transfer of assets and function are recorded correctly. The ALB should ensure that a record of balances that are transferring within the WGA boundary are made available so that the department can ensure that any transfers by absorption accounting within the departmental group can be eliminated on consolidation.
35. If dissolution is to occur during the financial year, arrangements should be made to enable subsequent summarisation schedules to be completed up to the reporting year end. Also, as described in paragraph 34 of this annex, a record should be kept of any functions/assets being transferred within the WGA boundary to allow the accurate elimination of transfers by absorption within the departmental group, see Chapter 4 for further guidance.

2. The Annual Report

This chapter is relevant to all group bodies except NHS foundation trusts, who should instead refer to the *FT ARM 2016-17*.

Introduction

- 2.1. Departmental group bodies are required to publish, as a single document, a three part annual report and accounts (ARA):
- 1) [The Performance Report](#), which must include:
 - An overview
 - A Performance analysis.
 - 2) [The Accountability Report](#), which must include:
 - A Corporate Governance Report
 - A Remuneration and Staff Report
 - A Parliamentary Accountability and Audit Report.
 - 3) The Financial Statements
- 2.2. The structure adopted here is the one described in the *FReM*. Departmental group bodies may omit headings or sections where they consider that these are not relevant but the structure of the three-part ARA outlined in this manual should be adhered to.

General Principles

- 2.3. This guidance sets out the minimum content of the annual report and accounts. Beyond this however, the entity must take ownership of the document and ensure that additional information is included where necessary to reflect the position of the body within the community and give sufficient information to meet the requirements of public accountability. Where a departmental group body has changed status in year, the body should give additional consideration to the requirements described in paragraphs [1.12 to 1.14](#) and [Chapter 1 Annex 3: Reporting requirements on change of status](#).

Accounting/Accountable Officer Responsibilities

- 2.4. The annual report and accounts as a whole must be fair, balanced and understandable. The Accounting/Accountable Officer takes personal responsibility for it and the judgments required for determining that it is fair, balanced and understandable. NHS bodies are not required to comply with the UK Code of Corporate Governance: NHS FTs must however follow Monitor's Corporate Governance requirements with respect to their own regime.

- 2.5. The departmental group body should include a Statement of Accounting Officers responsibilities within the Accountability report, see paragraph 2.23.
- 2.6. The Accounting/Accountable Officer/Chief executive shall sign and date the following within the ARA to confirm adherence to the reporting framework:
- Performance Report (see paragraph 2.10 to 2.15 for content);
 - Accountability Report, including the Corporate Governance report/Statement (see paragraphs 2.20 to 2.26), the Remuneration Report (see paragraphs 2.27 to 2.49) and the Parliamentary Accountability Report (where applicable, see paragraph 2.50).
 - Statement of Financial Position (see Chapter 5) .

CCG Governance

- 2.7. This manual adopts *FReM* and Companies Act terminology in references to “Boards” and “Directors”. It is recognised however that CCGs have unique governance arrangements that are not fully reflected in the core manual.
- 2.8. All references to Boards or Directors in the following chapter should, for the purposes of CCGs, be interpreted as governing bodies and governing body members.
- 2.9. Further details regarding the application to CCGs is available in the Chapter 2 CCG Appendix 1: Additional Requirements for CCGs, in relation to the status of CCG Governing bodies, Governing body Members and CCG membership and members.

Performance Report

- 2.10. 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 matters required to be dealt with in a Strategic Report as set out in Chapter 4A of Part 15 of the Companies Act 2006. Public entities should comply with the Act as adapted: i.e. they should treat themselves as if they were quoted companies.
- 2.11. Auditors will review the performance report for consistency with other information in the financial statements.

Overview

- 2.12. The purpose of the “Overview” is to give the user a short (no more than 10 to 15 pages) 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. The Overview should be enough for the lay user to have no need to look further into the rest of the annual report and accounts unless they were interested in further detail or had specific accountability or decision-making needs to be met.

2.13. As a minimum, the Overview must include:

- A statement from the Chief Executive providing their perspective on the performance of the organisation over the period
- A statement of the purpose and activities of the organisation
- The key issues and risks that could affect the entity in delivering its objectives
- An explanation of the adoption of the going concern basis where this might be called into doubt (e.g. by the issue of a report under Section 30 of the Local Audit and Accountability Act 2014 for a CCG or a provider), and
- A performance summary.

Performance analysis

2.14. 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.

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

- Information on how the entity measures performance i.e. what the entity 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 entity 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.
- Reporting entities are expected to comply with mandatory sustainability reporting requirements. It is envisaged that such reporting will be integral throughout the annual report and accounts and not a separate standalone report.
- Performance on other matters raised during the year (e.g. in Treasury PES papers): the Department will notify Group bodies of such additional requirements in “FAQs”.

The Accountability Report

Scope of the accountability report

2.16. The purpose of the accountability section of the annual report is to meet key accountability requirements to Parliament. The requirements of the accountability report are based on the matters required to be dealt with in a Directors’ Report, as set out in Chapter 5 of Part 15 of the Companies Act 2006 and Schedule 7 of SI 2008 No 410, and in a Remuneration Report, as set out in Chapter 6 of the Companies Act 2006 and Schedule 8 of SI 2008 No 410.

2.17. The requirements of the Companies Act 2006 have been adapted for the public sector context and only need to be followed by entities which are not companies to the extent that they are incorporated into this manual.

- 2.18. Auditors will review the accountability report for consistency with other information in the financial statements and will provide an opinion on the following disclosures which should clearly be identified as audited within the accountability report:
- Single total figure of remuneration for each director
 - CETV disclosures for each director
 - Payments to past directors, if relevant
 - Payments for loss of office, if relevant
 - “Fair pay” (pay multiples) disclosures
 - Exit packages, if relevant, and
 - Analysis of staff numbers.
- 2.19. The accountability report is required to have three sections:
- Corporate Governance Report
 - Remuneration and Staff Report
 - Parliamentary Accountability and Audit Report

Corporate governance report

- 2.20. The purpose of the corporate governance report is to explain the composition and organisation of the entity’s governance structures and how they support the achievement of the entity’s objectives.
- 2.21. As a minimum, the corporate governance report must include:
- The directors’ report (Members’ report for CCGs)
 - The statement of Accounting Officer’s responsibilities
 - The governance statement.

The directors’/members’ report

- 2.22. The directors’/members’ report must include the following, unless disclosed elsewhere in the annual report and accounts, in which case a cross-reference may be provided:
- the names of the Chair and Chief Executive, and the names of any individuals who were directors of the entity at any point in the financial year and up to the date the ARA was approved
 - the composition of the management board (including advisory and non-executive members) having authority or responsibility for directing or controlling the major activities of the entity during the year
 - (recommended) the names of the directors forming an audit committee or committees

- details of company directorships and other significant interests held by members of the management board which may conflict with their management responsibilities. Where a Register of Interests is available online, a web link may be provided instead of a detailed disclosure in the annual report
- information on personal data related incidents where these have been formally reported to the information commissioner's office
- a statement to the effect that each director: knows of no information which would be relevant to the auditors for the purposes of their audit report, and of which the auditors are not aware, and; has taken "all the steps that he or she ought to have taken" to make himself/herself aware of any such information and to establish that the auditors are aware of it.

Modern Slavery Act 2015 – Transparency in Supply Chains

- 2.23. The Modern Slavery Act 2015 establishes a duty for commercial organisations with an annual turnover in excess of £36 million to prepare an annual slavery and human trafficking statement. This is a statement of the steps the organisation has taken during the financial year to ensure that slavery and human trafficking is not taking place in any of its supply chains or in any part of its own business.
- 2.24. Income earned by NHS bodies from government sources, including Clinical Commissioning Groups and local authorities, is considered to be publicly funded and is therefore outside the scope of these reporting requirements. Where NHS bodies engage in profit-making activities, these may still be sufficient to trigger the reporting requirements. This is likely to be the case where income is earned from non-government sources, such as private patients, and where this income exceeds £36 million in total. It is ultimately for individual NHS bodies, in discussion with their auditors, to consider whether they have activities that require them to be treated as a commercial organisation for the purpose of the Act, and to produce the required statement accordingly.
- 2.25. Home Office have produced a practical guide on applying the reporting requirements, which is available at the following link:

<https://www.gov.uk/government/publications/transparency-in-supply-chains-a-practical-guide>

Statement of Accounting/Accountable Officer's responsibilities

- 2.26. The Accounting/Accountable Officer should explain his/her responsibility for preparing the financial statements.
- 2.27. The Accounting/Accountable Officer is required to confirm that, as far as he or she is aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that he or she ought to have taken to make himself or herself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.
- 2.28. The Accounting/Accountable Officer is required to confirm that the annual report and accounts as a whole is fair, balanced and understandable and that he or she takes

personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Governance statement

- 2.29. In preparing the statement, the Accounting/Accountable Officer should reflect the particular circumstances in which the entity operates. (CCGs should follow the template and guidance published via the CCG SharePoint Pigeon Holes).

Remuneration and staff report

- 2.30. The remuneration and staff report sets out the organisation's remuneration policy for directors and senior managers, reports on how that policy has been implemented and sets out the amounts awarded to directors and senior managers and where relevant the link between performance and remuneration.
- 2.31. In addition the report provides details on remuneration and staff that users of the accounts see as key to accountability. Where auditable elements of the remuneration and staff reports appear in the accounts, entities need not reproduce the data elsewhere in the reports, provided that clear cross-references to the source data are provided.
- 2.32. The remuneration report must disclose information on those persons in senior positions having authority or responsibility for directing or controlling major activities within the group body. This means those who influence the decisions of the entity as a whole rather than the decisions of individual directorates or departments.
- 2.33. There is a presumption that information about named individuals will be given in all circumstances and all disclosures in the remuneration report will be consistent with identifiable information of those individuals in the financial statements. Non-disclosure is acceptable only where publication would:
- be in breach of any confidentiality agreement
 - prejudice the rights, freedom or legitimate interest of the individual
 - cause or be likely to cause substantial damage or substantial distress to the individual or another, and that damage or distress would be unwarranted, or
 - affect national security or where an individual may be at risk if his or her name is disclosed.
- 2.34. In other cases, it would be for the staff member to make a case for non-disclosure, which should be considered by the employer on a case-by-case basis. Where non-disclosure is agreed, the fact that certain disclosure has been omitted should be disclosed.
- 2.35. For staff-sharing arrangements: the remuneration report should include remuneration details of those senior managers holding a position in the entity, showing the *entity's share* of the relevant components of remuneration. In addition, the senior manager's total salary (e.g. for a number of organisations) should be shown separately. Certain

information is auditable and will be referred to in the audit opinion. The report must be annotated to identify those items that are auditable.

- 2.36. The Chief Executive or Accounting/Accountable Officer should be asked to confirm whether this covers more than the executive and non-executive directors (for CCGs – attendees at Governing Body meetings). It is usually considered that the regular attendees of the entity's board meetings are its senior managers.

Relationship between the remuneration report and exit packages, severance payments and off-payroll engagements disclosures

- 2.37. In many cases, individuals who fall to be named in the remuneration report will also be included, although not individually identified by name, in the exit packages, non-compulsory departures or off-payroll engagements disclosures. Where this is the case, the remuneration report must provide the details of those agreements or payments on an individual by individual basis in a way that permits the user to cross-reference remuneration report data to that in the wider notes to the accounts.

Remuneration policy

- 2.38. Entities must disclose their policy on the remuneration of directors for the current and future years.

Remuneration of Very Senior Managers (VSMs) – CCGs only

- 2.39. Where one or more senior managers of a CCG are paid more than £142,500 per annum, the remuneration report must explain (not necessarily on an individual basis) the steps the CCG 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 the remuneration report (see [Chapter 2 Annex 2](#)).
- 2.40. A similar disclosure applies to NHS foundation trusts, which is set out separately in the *ARM 2016-17*.

Remuneration Report Tables

- 2.41. The tables for use as part of the Remuneration Report (the Single Total Figure and Pension Entitlement tables) are '[Table 1: Single total figure table](#)' and '[Table 2: Pension Benefits](#)', reproduced in [Chapter 2 Annex 2 - Salary and Pension disclosure tables: information subject to audit](#).
- 2.42. The figures relate to all those individuals who hold or have held office as a senior manager of the NHS body (CCGs – member of the Governing Body) during the reporting year or in the prior period (If seconded into the organisation at no cost to the organisation, disclose the arrangement). It is irrelevant that:
- an individual was not substantively appointed (holding office is sufficient, irrespective of defects in appointment), or an individual's title as senior manager 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.

2.43. In addition disclose:

- Explanation of any significant awards made to past senior managers.

2.44. Calculations in the single total figure table (notably in column “e” – all pensions related benefits) may return negative values. Negative figures should not be shown in the table: a zero should be substituted.

2.45. CCG pension disclosures relating to GPs serving on the Governing Body are discussed in **Chapter 2 CCG Appendix 2 – Pension Disclosures**, including tables to demonstrate how the pensions disclosure of governing body members should be disclosed.

Compensation on early retirement or for loss of office

2.46. If a payment for compensation on early retirement or for loss of office (paid or receivable) has been made under the terms of an approved Compensation Scheme, the fact that such a payment has been made should be disclosed, including a description of the compensation payment and details of the total amounts paid (the cost to be used must include any top-up to compensation provided by the employer to buy out the actuarial reduction on an individual’s pension).

Payments to past directors

2.47. Entities must provide details of any payments made to any person who was not a director at the time the payment was made, but who had been a director of the entity previously, unless already disclosed within a previous directors’ remuneration report, the current year single total remuneration disclosure or within the disclosure of compensation for early retirement or loss of office. Only payments of regular pension benefits which commenced in previous years and payments in respect of employment for the entity other than as a director may be excluded.

Fair Pay Disclosure

- 2.48. Entities must disclose the following information together with prior year comparatives:
- The median remuneration of the reporting entity’s staff. This is based on annualised, full-time equivalent remuneration of all staff (including temporary and agency staff) as at the reporting date;
 - the range of staff remuneration
 - The ratio between the median staff remuneration and the mid-point of the banded remuneration of the highest paid director; and
 - An explanation for any significant changes in the ratio between the current and prior year

2.49. NHS organisations should include 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 the public to hold government to account for their use of public funds
- it provides an opportunity for entities to monitor their own remuneration and note any adverse or anomalous trends.

2.50. 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. 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/Member in their organisation and the median remuneration of the organisation’s workforce.

The banded remuneration of the highest paid director/Member 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/member. Remuneration ranged from £xx to £xx (201W-1X £xx-£xx)

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind, but not severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.”

2.51. 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 individual. Entities 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 individual (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.)

- 2.52. 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.
- 2.53. 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.

Staff report

- 2.54. The staff report must include the following information:
- a) Number of senior civil service staff (or senior managers) by band
 - b) Staff numbers – Entities should provide an analysis of staff numbers, analysed as in the groupings in the example accounts format. To note: Staff on outward secondment should not be included in the average number of employees
 - In allocating employees to categories, the employee definitions should be those in the Information Centre’s *Occupational Code Manual*:
<http://www.ic.nhs.uk/statistics-and-data-collections/data-collections/information-supporting-our-data-collections>
 - The average number of employees is calculated as the whole time equivalent number of employees under contract of service in each week in the financial year, divided by the number of weeks in the financial year. The “contracted hours” method of calculating whole time equivalent number should be used, that is, dividing the contracted hours of each employee by the standard working hours.
 - c) Staff composition – Entities should provide an analysis of the number of persons of each sex who were directors, senior civil servants (or equivalent) and employees of the company
 - d) Sickness absence data - NHS bodies are also required to report on staff sickness. The information is also required on the summarisation schedules for consolidation purposes.
 - e) Staff policies applied during the financial year:
 - For giving full and fair consideration to applications for employment by the company made by disabled persons, having regard to their particular aptitudes and abilities
 - For continuing the employment of, and for arranging appropriate training for, employees of the company who have become disabled persons during the period when they were employed by the company
 - Otherwise for the training, career development and promotion of disabled persons employed by the company.
 - f) Expenditure on consultancy;
 - g) Off-payroll engagements;

Treasury requires public sector bodies to report arrangements whereby individuals are paid through their own companies (and so are responsible for their own tax and NI arrangements).

Model templates '*Table 1: Off-payroll engagements longer than 6 months*', '*Table 2: New Off-payroll engagements*' and '*Table 3: Off-payroll board member/senior official engagements*', along with further guidance on "off-payroll" disclosures can be found in Chapter 2 Annex 4 – "off-payroll" engagements.

The report must state whether there are, or are not, engagements to report under this heading (i.e. a NIL return is required).

h) Exit packages;

The figures to be disclosed here relate to exit packages agreed in the year. The actual date of departure might be in a subsequent period, and the expense in relation to the departure costs may have been accrued in a previous period. The data here is therefore presented on a different basis to other staff cost and expenditure notes in the accounts.

HM Treasury has issued specific guidance on severance payments (i.e. covering any payments that are not made under either legal or contractual obligation): this is now included in HM Treasury's Managing Public Money. Special severance payments when staff leave a public sector employer should only rarely be considered. They will always require HM Treasury approval because they are usually novel, contentious and potentially repercussive: NHS bodies have no delegated authority to make such payments unless so approved.

- 2.55. Model templates '*Table 1: Exit packages*' and '*Table 2: Analysis of Other Departures*', along with guidance on exit package and voluntary severance disclosures, can be found in Chapter 2 Annex 3 – Exit packages and severance payments.

Parliamentary accountability and audit report

- 2.56. The full Parliamentary accountability report is required by those ALBs that report directly to Parliament. It is also required in the consolidated departmental annual report.
- 2.57. The commissioning and provider sectors may omit the parliamentary accountability report if they choose to continue to disclose elements as part of the accounts disclosure notes. However the audit report must be included within this section.
- 2.58. There will be a need to collect data for the consolidated account via the summarisation schedules to assist the completion of this report. Therefore, regardless of applicability of this report, all departmental group bodies must ensure the summarisation schedule is completed.
- 2.59. The parliamentary report will contain disclosures on the following (as outlined in FReM Chapter 3):

Requirement	Sector			
	DH	ALBs (inc NHS England)	NHS trusts	CCGs
Statement of Parliamentary Supply	Mandatory	N/A	N/A	N/A
Name of public sector bodies outside boundary where department has lead policy responsibility	Mandatory	N/A	N/A	N/A
Brief description of material remote contingent liabilities (under parliamentary reporting requirements not IAS 37) and estimate of its financial effect	Mandatory	Mandatory	Optional	Optional
An explanation of the regularity of expenditure, including long-term expenditure trends	Mandatory	Mandatory	Optional	Optional
A statement is required if cost allocation and charging requirements set by HMT have not been complied with	Public Sector Information Holders only		N/A	N/A
A statement of losses and special payments over £300k*	Mandatory	Mandatory	Optional	Optional
Notation of gifts made over a value of £300k (per Managing Public Money annex 4.12 – note these require HMT approval)	Mandatory	Mandatory	Optional	Optional
Analysis of material (>£1m) fees and charges income. This should include: 1) the financial objective(s) and performance against the objectives; 2) the full cost and unit costs charged in year; 3) the total income received in year; 4) the nature/extent of any subsidies or overcharging	Mandatory	Mandatory	Optional	Optional
Audit certificate and report**	Mandatory	Mandatory	Mandatory	Mandatory

* Refers to losses and special payments where the total amounts incurred are over the limits proscribed in Managing Public Money (£300k) In the case of reporting on special payments which are severance payments, the detail to be disclosed should include the number of special severance payments made, the total amount paid out, and the maximum (highest), minimum (lowest) and median values of payments made. (An entity should disclose where some of the required detail is excluded due to the reporting of special severance payments conflicting with a legal obligation arising as a result of the Data Protection Act 1998, or otherwise.

***Where the relevant legislation requires the auditor to report on the examination of the financial statements, the auditor will provide such a report. The form and content of the report is the responsibility of the auditor. Where the auditor has no substantive comment to make, the report will generally be in the form of a single sentence appended to the audit opinion in the form: 'I have no observations to make on these financial statements'. Where there is a substantive report, it will be referred to in the audit opinion, but will be quite separate from it.*

- 2.60. Where the requirements of the Parliamentary Accountability report are mandatory for a departmental group body, the entity may omit the equivalent disclosure note to the accounts referred to in Chapters 4-7.
- 2.61. Similarly, if an entity for whom the Parliamentary Accountability requirements are optional chooses to make the disclosure as part of this section, they too may omit the equivalent disclosure note to the accounts. It is up to the entity to ensure that all applicable disclosure requirements are met.

Publication of the Annual Report and Accounts

Entities that do not lay accounts before Parliament

- 2.62. Departmental group bodies that are not required to lay their annual report and accounts before Parliament (NHS trusts, CCGs, as described in Chapter 1 Annex 3) must publish locally their full annual report and accounts, as described in the preceding parts of this chapter
- 2.63. The option to publish locally a separate, concise strategic report, as described in the following section, is not available to bodies that do not lay accounts before Parliament. CCGs should refer to **Chapter 2 CCG Appendix 1: Additional Requirements for CCGs** for further guidance.

Separate strategic report and supplementary material

- 2.64. For departmental bodies that do lay accounts before Parliament there is discretion to publish a separate performance report overview and supplementary material, rather than the full ARA.
- 2.65. 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. For the departmental group, the performance report overview section (as defined in this chapter) is the equivalent to the strategic report for these purposes.
- 2.66. Where entities report directly to Parliament, the performance report: overview and supplementary material must not be published before the full annual report and accounts have been laid before Parliament. NHS trusts do not report directly to Parliament and may publish ARAs in advance of the consolidated Resource Account being submitted by DH to Parliament.

2.67. The performance review: overview and supplementary material must contain the Annual Governance Statement and must be made available to the public free of charge. A reasonable copying charge may be levied only for copies of the full audited accounts, where the decision has been made to publish the strategic report 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 is only part of the entities' annual report and accounts
- state how a person can obtain a copy of the 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: overview and directors' 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 entity directors' remuneration.

Chapter 2 CCG Appendix 1: Additional Requirements for CCGs

1. In addition to the requirements set out in Chapter 2, CCGs are required to publish their full Annual Report & Accounts in accordance with arrangements notified via the CCG SharePoint Pigeon Holes. They may additionally produce and distribute a separate Performance Report: Overview with Supplementary Material, produced in accordance with this *GAM*.
2. For CCGs the gender distribution should be analysed as follows:
 - Members of the Governing Body;
 - All other senior managers, including all managers at grade VSM, not included above; and,
 - All other employees not included in either of the previous two categories.

Business information

3. Clinical commissioning groups should ensure they include sufficient information on the delivery of their statutory duties to comply with the requirements of Section 14Z15 Paragraph 2 of the National Health Service Act 2006 (as amended) and the CCG Assurance Framework.

Details of Members of the Membership Body and Governing Body

4. The Report must provide:
 - The member practices, forming the Membership Body, of the CCG
 - The names of the Chair and Accountable Officer throughout the financial year and up to the signing of the Annual Report & Accounts
 - The composition of the Governing Body throughout the financial year and up to the signing of the Annual Report & Accounts (including advisory and lay members)
 - The names of the individuals forming the Audit Committee throughout the financial year and up to the signing of the Annual Report & Accounts, and
 - Reference to the Remuneration Report for details of the membership of the Remuneration Committee, and the Governance Statement for details of and membership of all other Governing Body and Membership Body Committees.

Chapter 2 CCG Appendix 2 – Pension Disclosures

Introduction

1. For CCGs the correct classification of GPs on the Governing Body will drive the salary and pension disclosures required in the Remuneration Report.
2. Within the NHS Pension Scheme there are two types of member:
 - Practitioner; and,
 - Officer.
3. Practitioner covers medical, dental and some ophthalmic practitioners, who meet specific criteria.
4. In summary there are three types of medical Practitioner in NHS pension terms:
 - A type 1 medical Practitioner is a GP Provider (GP partner, single–hander) who has entered into a GMS, PMS, or APMS contract;
 - A type 2 medical Practitioner is generally a salaried GP employed by a (GMS, PMS, or APMS) surgery; and,
 - A Locum Practitioner is a freelance GP locum who deputises or assists on a temporary basis in a surgery.
5. All of the above must be on the medical performers list and registered with the General Medical Council.
6. Their NHS Pension Scheme Employing Authority is NHS England even for salaried GPs employed by a surgery.
7. Individuals not meeting the criteria to be classed as a Practitioner in NHS Pension terms are classed as an Officer.
8. Tables 1 and 2 which follow describe how the benefits received by the different governing body members should be disclosed.

Prior Year Comparatives

9. Where prior year disclosures do not comply with this guidance they should be restated, to allow meaningful comparison year on year. Narrative to explain the reason for restatement should be agreed with local auditors.

Table 1: Governing Body Member is a Medical Practitioner

Type of Contract	Contract of Service with individual	Contract for Service with individual	Contract with GP Practice/Surgery	Contract with Corporate Body
Employment Status	Employee	Off Payroll Worker		
Payment Route	Payroll	Accounts Payable*	Accounts Payable	
Eligible for NHS Pension	Yes			No
NHS Pension Status	Officer	Practitioner		n/a
NHS Pension Employing Authority	CCG	NHS England		n/a
Responsibility for Pension Contributions	CCG	Legal requirement on the CCG to deduct at source, as agent for NHS England	GP	n/a
Payment Method	As part of routine employee contributions to NHS Pensions	SOLO Form submitted to NHS England (PCS) together with pension payment due		n/a
Salary Disclosures	Full disclosure as per Group Accounting Manual	Gross payment to the individual disclosed in the salary column (including employer pension contributions, where relevant). All other columns £NIL. Note required below the salary table to explain the off payroll payment arrangement, as per Group Accounting Manual requirement.		
Off Payroll Worker	n/a	Include as per Group Accounting Manual guidance. Confirmation of regularity of tax arrangements and tax		

Disclosures		payments required, as per Group Accounting Manual guidance.
Pension Disclosures	Full disclosure as per Group Accounting Manual. Request information from NHS Pensions in line with Greenbury process.	Off payroll worker – no pension disclosure required. Exclude from the pensions table. Include a note under the pension table to explain why some individuals included in the salary table are not included in the pension table.

** On occasions HMRC may deem long term contract for service holders as ‘office holders’ of the organisation, and require the organisation to deduct income tax and national insurance at source. This designation does not change their employment status with the CCG (as an off payroll worker rather than an employee of the CCG) but is merely a route for HMRC to collect tax and national insurance ‘in-year’ rather than 10 months after the year end.*

In this situation the deduction of tax and national insurance would be processed via ESR, and the resulting deduction paid over in the normal way. An Officer Pension record should NOT be created in ESR and Officer Pension should NOT be deducted via payroll. Practitioner Pension should continue to be deducted ‘off-system’ and paid over using the SOLO Form. The individual remains an off payroll worker.

Table 2: Governing Body Member is not a Medical Practitioner

Type of Contract	Contract of Service with individual	Contract for Service with individual	Contract with Corporate Body
Employment Status	Employee	Off Payroll Worker	
Payment Route	Payroll	Accounts Payable*	Accounts Payable
Eligible for NHS Pension	Yes	No	
NHS Pension Status	Officer	n/a	
NHS Pension Employing Authority	CCG	n/a	
Responsibility for Pension Contributions	CCG	n/a	
Payment Method	As part of routine employee contributions to NHS Pensions	n/a	
Salary Disclosures	Full disclosure as per Group Accounting Manual	Gross payment to the individual disclosed in the salary column. All other values £NIL. Note required below the salary table to explain the off payroll payment arrangement, as per Group Accounting Manual requirement.	
Off Payroll Worker Disclosures	n/a	Include as per Group Accounting Manual guidance. Confirmation of regularity of tax arrangements and tax payments required, as per Group Accounting Manual guidance.	
Pension Disclosures	Full disclosure as per Group Accounting Manual. Request information from NHS Pensions in line with Greenbury	Off payroll worker – no pension disclosure required. Exclude from the pensions table. Include a note under the pension table to explain why some individuals included in the salary table are not included in the pension table.	

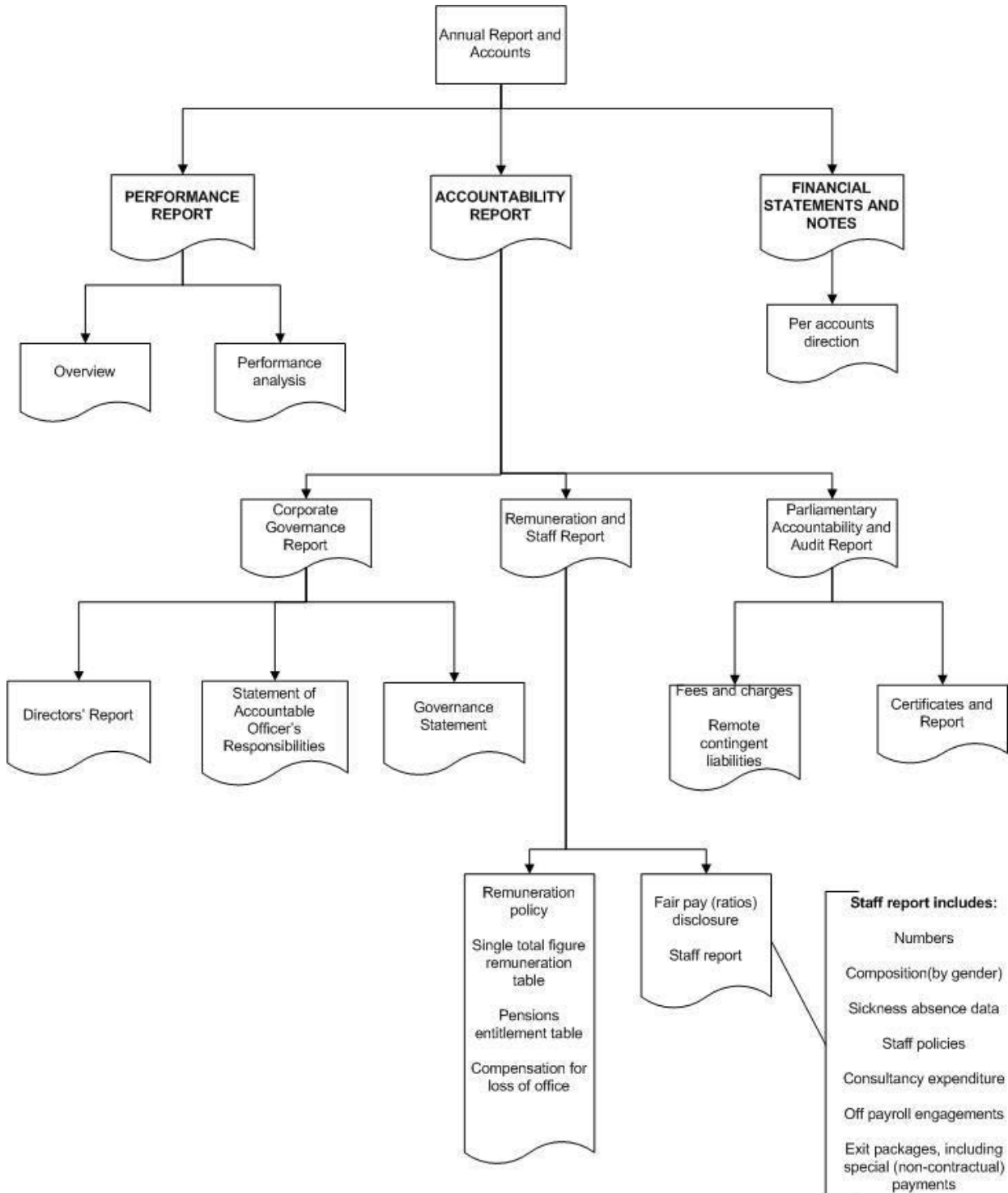
	process.	
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** On occasions HMRC may deem long term contract for service holders as 'office holders' of the organisation, and require the organisation to deduct income tax and national insurance at source. This designation does not change their employment status with the CCG (as an off payroll worker rather than an employee of the CCG) but is merely a route for HMRC to collect tax and national insurance 'in-year' rather than 10 months after the year end.*

In this situation the deduction of tax and national insurance would be processed via ESR, and the resulting deduction paid over in the normal way. A pension record should therefore NOT be created and pension should NOT be deducted. The individual remains an off payroll worker.

Chapter 2 Annex 1 – Annual Report and Accounts Outline Structure

In summary, the structure for the Annual Report and Accounts, as defined by the *FReM* is as follows.



Chapter 2 Annex 2 - Salary and Pension disclosure tables: information subject to audit

1. This annex provides a standard layout for the disclosure of salary and pensions paid to staff, which will be subject to audit.

Salaries and allowances

Table 1: Single total figure table

Name and title	(a) Salary (bands of £5,000)	(b) Expense payments (taxable) to nearest £100*	(c) Performance pay and bonuses (bands of £5,000)	(d) Long term performance pay and bonuses (bands of £5,000)	(e) All pension-related benefits (bands of £2,500)	(f) TOTAL (a to e) (bands of £5,000)
	£000	£	£000	£000	£000	£000

2. Provide comparative information for the prior year.
3. Disclose, for each individual, payments or compensation for loss of office, and cross-reference this to other disclosures and notes in the accounts (e.g. exit packages and non-compulsory departures)
4. Where more than one individual occupied the same post over the year, details must be disclosed here

**Note: Taxable expenses and benefits in kind are expressed to the nearest £100.*

Table 2: Pension Benefits

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

5. As Non-Executive members do not receive pensionable remuneration, there will be no entries in respect of pensions for Non-Executive members.

Cash Equivalent Transfer Values

6. A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's (or other allowable beneficiary's) pension payable from the scheme. CETVs are calculated in accordance with the Occupational Pension Schemes (Transfer Values) Regulations 2008.

Real Increase in CETV

7. This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Content of tables: salaries and allowances

8. The requirements of Part 3 of [Schedule 8](#) of the *Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013* are set out below. In the table in Annex X:
- column (a) is salary and fees (in bands of £5,000)
 - column (b) is all taxable benefits (total to the nearest £100)
 - column (c) is annual performance-related bonuses (in bands of £5,000)
 - column (d) is long-term performance-related bonuses
 - column (e) is all pension-related benefits
 - (additional columns must also be included for any other items in the nature of remuneration - but excluding payments to former senior managers (see below))
 - column (f) The final column is total of the above items (in bands of £5,000).
9. Each of the above requirements is described in further detail below.

Column (a): the total amount of salary and fees paid to or receivable by the person in respect of qualifying services. Bandings of £5,000 apply.

Salary and other remuneration: this covers both pensionable and non-pensionable amounts. The amounts paid or payable by the NHS body in respect of the period the senior manager held office must be shown. Where, for example, 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, e.g. where there have been two finance directors for a month, both must be shown, together with the date the post was started or vacated.

Where the senior manager has been employed under separate contracts for different services for the same entity, it may be useful to note this below the table.

Qualifying services of a senior manager include duties for the entity that are not part of their management role. Where a senior manager's remuneration includes elements for their management role and another role, e.g. clinical roles of medical directors and similar staff, the remuneration report should reflect the total remuneration paid by the entity for the individual's services to the entity, including remuneration for duties that are not part of their management role. For transparency, entities should add a footnote underneath the table specifying the element of the individual's total remuneration from the entity that relates to their non-managerial role.

Where the individual receives part of their remuneration from another body, e.g. a GP providing services as a director at a Clinical Commissioning Group, the entity should make disclosures only in respect of its share of the individual's remuneration.

Salary includes:

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

Salary excludes:

- recharges to any other health body
- reimbursement of out-of-pocket expenses
- reimbursement of "travelling and other allowances" (paid under determination order) including home to work travel costs
- taxable benefits
- employers' superannuation and National Insurance contributions
- performance related bonuses (these are recorded separately)
- golden hellos and compensation for loss of office (these are recorded separately), and
- any amount paid which the director must subsequently repay.

This should include all remuneration paid by the entity to the individual in respect of their service for the entity, including remuneration for duties that are not part of their management role.

The disclosure in single total figure table for medical directors and similar staff should therefore represent their total remuneration package from the entity.

For transparency, entities should add a footnote underneath the table specifying the element of the individual's remuneration from the entity that relates to their clinical role.

Where the individual receives part of their remuneration from another body, e.g. a GP providing services as a director at a Clinical Commissioning Group, the entity should make disclosures only in respect of its share of the individual's remuneration.

Column (b): all taxable benefits (to the nearest £100 and disclosed in £s). 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.

A narrative disclosure is required to detail the nature of these benefits.

Column (c): annual performance pay and bonuses (in bandings of £5,000)

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.

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

Column (d): long-term performance pay and bonuses (in bandings of £5,000). 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.

For both 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.

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): all pension-related benefits (in bandings of £2,500), 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. These are the aggregate input amounts, calculated using the method set out in section 229 of the Finance Act 2004(1). Paragraph 10(1)(e)(ii)(cc) of sch8 of 2013/1981 (update to the Finance Act 2004: <http://www.legislation.gov.uk/ukxi/2013/1981/schedule/made>) requires the exclusion of any employee contributions from the figure arrived at to reach the amount which should be disclosed.

This figure will include those benefits accruing to senior managers from membership of the NHS Pensions Scheme which is a defined benefit scheme (although accounted for by NHS bodies as if it were a defined contribution scheme). Accrued benefits balances represent the annual increase in pension entitlement, and should be disclosed in £2,500 bands.:

<i>The real increase in pensions multiplied by 20*</i>
Plus <i>The real increase in any lump sum multiplied by 20*</i>
Less <i>Contributions made by the individual</i>
Equals <i>Accrued pensions benefits</i>

**The real increases is the difference between the annual rate of pension payable to the director at the end of the financial year and the rate payable at the start of the year. It excludes increases due to inflation/decreases due to transfer of pensions rights.*

The information will be provided by the pension scheme the director is a member of, as part of the “Greenbury” disclosure requirements. Employee contributions for the year are deducted after the calculation above has been made.

Column (f): the total of the values disclosed in columns (a) to (e). This is expressed in bandings of £5,000 to be consistent with the salary and performance pay bandings.

Content of tables: pensions

Total pension entitlement. For each senior manager, Companies Act regulations require disclosure of:

- the pension entitlement at the end of the year: this requirement is met by the completion of the “pensions” table, the contents of which are described below.

- a description of additional benefits that will become receivable by the individual in the event that they retire early, and
- separate disclosures where the individual is a member of more than one scheme

Pension entitlements: The information required in *FReM* 5.3.22 should be disclosed as follows:

- (Cols (a) and (b)) the real increase during the reporting year in the pension and (if applicable) related lump sum at pension age in bands of £2,500
- (Cols (c) and (d)) the value at the end of the reporting year in the pension and (if applicable) related lump sum at pension age in bands of £5,000
- (Col (e)) the value of the cash equivalent transfer value at the beginning of the reporting period to the nearest £1,000
- (Col (f)) the real increase in the cash equivalent transfer value at the end of the reporting period to the nearest £1,000, and
- (Col (g)) the value of the cash equivalent transfer value at the end of the reporting period to the nearest £1,000
- (Col (h)) in the case of a Partnership pension account, the employer's contribution (the first four bulleted disclosures will not apply).

Payments for loss of office

10. 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.

Payments to past senior managers

11. 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 entity 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 entity.

Chapter 2 Annex 3 – Exit packages and severance payments

Introduction

1. Tables 1 and 2 provide detail about payments on termination of employment with table 2 dealing with non-compulsory redundancies. These additional disclosures are required to strengthen accountability in the light of public and Parliamentary concern about the incidence and cost of these payments. Both Notes are shown below.
2. It is important that entries in tables 1 and 2 are consistent with related disclosures in (a) the Remuneration Report and (b) the Losses and Special Payments Note. Thus, where entries here relate to individuals listed in the Remuneration Report, there must be a separate disclosure in the Remuneration Report listing details of the individuals' severance payments (whether compulsory or voluntary). Similarly, the Losses Statements must be consistent with those listed here under "special non-contractual payments".

Non-compulsory departures

3. 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.
4. The note is prepared on the same basis as table 1 i.e. showing the exit packages agreed in the year, irrespective of the actual date of accrual or payment.
5. The total value in this Note should agree with the Total Resource Cost for Other Departures Agreed in table 1. However, there are likely to be differences in the component numbers as table 1 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.
6. Contractual payments relating to individual contractual entitlements are to be disclosed in the following categories:
 - voluntary redundancies including early retirement costs (the cost to be used must include any top-up to compensation provided by the employer to buy out the actuarial reduction on an individual's pension)
 - mutually agreed resignations (MARS)
 - early retirements in the efficiency of the service and payments in lieu of notice (contractual)
7. 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.
8. Non-contractual payments are those made outwith contractual or legal obligation, including those from judicial mediation. Pre-authorisation from the 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. In the footnote the amount of any non-contractual payments in lieu of notice are to be listed. A further footnote 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.

9. The NHS body 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.
10. It follows that for any values included here, working papers will document the relevant approval for the payment.

Table 1: Exit packages

Exit package cost band (including any special payment element)	Number of compulsory redundancies	Cost of compulsory redundancies	Number of other departures agreed	Cost of other departures agreed	Total number of exit packages	Total cost of exit packages	Number of departures where special payments have been made	Cost of special payment element included in exit packages
	WHOLE NUMBERS ONLY	£s	WHOLE NUMBERS ONLY	£s	WHOLE NUMBERS ONLY	£s	WHOLE NUMBERS ONLY	£s
Less than £10,000								
£10,000 - £25,000								
£25,001 - £50,000								
£50,001 - £100,000								
£100,001 - £150,000								
£150,001 - £200,000								
>£200,000								
Totals				Agrees to A below				

Redundancy and other departure costs have been paid in accordance with the provisions of the [NHS Scheme name]. Exit costs in this note are accounted for in full in the year of departure. Where the [organisation] has agreed early retirements, the additional costs are met by the [organisation] and not by the NHS pensions scheme. Ill-health retirement costs are met by the NHS pensions scheme and are not included in the table.

[Note: entities should provide additional text if any payments are not covered by the [NHS scheme] e.g. ex-gratia payments agreed with the Treasury / exit scheme details where using another scheme (e.g MARS).]

This disclosure reports the number and value of exit packages agreed in the year. Note: the expense associated with these departures may have been recognised in part or in full in a previous period.

Table 2: Analysis of Other Departures

	Agreements Number	Total value of agreements £000s
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**		
Total		A – agrees to total in table 1

As a single exit package 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 xx which will be the number of individuals.

* any non-contractual payments in lieu of notice are disclosed under “non-contractual payments requiring HMT approval” below.

**includes any non-contractual severance payment made following judicial mediation, and X (list amounts) relating to non-contractual payments in lieu of notice.

X (number) non-contractual payments (£x,000) were made to individuals where the payment value was more than 12 months’ of their annual salary.

The Remuneration Report includes disclosure of exit payments payable to individuals named in that Report

Chapter 2 Annex 4 – “off-payroll” engagements

Introduction

1. A Treasury requirement for public sector bodies to report arrangements whereby individuals are paid through their own companies (and so are responsible for their own tax and NI arrangements, not being classed as employees) has been promulgated in PES guidance. Treasury’s guidance on this is summarised below.
2. Payments to GP practices for the services of employees and GPs are deemed to be “off-payroll” engagements, and are therefore subject to these disclosure requirements.

Inclusion in Annual Reports

3. NHS bodies must include the disclosures set out below within their Annual Reports (or within the financial statements if they wish, but if so, clearly signposted from the AR). There is no requirement to have the disclosure audited (although inclusion in the financial statements will bring the disclosure into the scope of audit), and DH will not require information for consolidation purposes from NHS Trusts, Foundation Trusts and Clinical Commissioning Groups.
4. The Department will however disclose comparable figures in respect of its own core business, together with a note that individual NHS bodies are required to make disclosures in their Annual reports. NHS bodies should be aware that this information is provided in the public interest and may be expected to be requested under the Freedom of Information Act.

Guidance

5. Following the Review of Tax Arrangements of Public Sector Appointees published by the Chief Secretary to the Treasury on 23 May 2012, Departments and their arm’s length bodies (this is taken to include all those bodies included within the DH reporting boundary) must publish information on their highly paid and/or senior off-payroll engagements.
6. As part of their annual reports NHS bodies should present the following data for all public bodies within their reporting boundaries and in scope of the guidance on off-payroll appointments.

Existing off payroll engagements

7. For all off-payroll engagements as of 31 March 2017, greater than £220 per day and that last for longer than six months:
 - The total number of existing engagements as of 31 March 2017
 - 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.
- Declaration that all existing off-payroll engagements 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.

8. Disclosure should be in the format shown in table 1 below.

New off-payroll engagements

9. For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017, greater 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 new engagements which include contractual clauses giving the employer 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
 - The number that have been terminated as a result of assurance not being received.
10. In any cases where, exceptionally, the reporting entity 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 body should set out the reasons for this.
11. Where an individual leaves after assurance is requested and before assurance is received this should be reported within “number for whom assurance has not been received”.
12. 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. Employers should be aware that they will not be informed by HMRC of the results of any investigation it may undertake and therefore employers cannot use this referral as part of their assurance process.

13. Instances where bodies are still waiting for information from the individual at the time of reporting should be reported as not received.
14. Disclosure should be in the format shown in table 2 below.

Board Member/Senior Management engagements

15. For any off-payroll engagements of board/Governing Body members and/or senior officials with significant financial responsibility between 1 April 2016 and 31 March 2017 reporting entities must also disclose:
 - The number of off-payroll engagements of board/Governing body members and/or senior officials with significant financial responsibility
 - Details of the exceptional circumstances that led to each of these engagements
 - Details of the length of time each of these exceptional engagements lasted
 - The total number of individuals both on and off-payroll that have been deemed “board members and/or senior officials with significant financial responsibility” during the financial year. This total figure must include engagements which are ON PAYROLL as well as those off-payroll.
16. Disclosure should be in the format shown in table 3 below.

Table 1: Off-payroll engagements longer than 6 months

For all off-payroll engagements as of 31 March 2017, for more than £220 per day and that last longer than six months:

	Number
Number of existing engagements as of 31 March 2017	
<i>Of which, the number that have existed:</i>	
for less than one year at the time of reporting	
for between one and two years at the time of reporting	
for between 2 and 3 years at the time of reporting	
for between 3 and 4 years at the time of reporting	
for 4 or more years at the time of reporting	

Confirmation that all existing off-payroll engagements 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.

Table 2: New Off-payroll engagements

For all new off-payroll engagements between 1 April 2016 and 31 March 2017, for more than £220 per day and that last longer than six months:

	Number
Number of new engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017	
Number of new engagements which include contractual clauses giving the [NHS body name] the right to request assurance in relation to income tax and National Insurance obligations	
Number for whom assurance has been requested	
<i>Of which:</i>	
assurance has been received	
assurance has not been received	
engagements terminated as a result of assurance not being received	

Note:

(1) It is expected that this number will be small as cases where assurance has not been received should generally be resolved by year end, and by publication of accounts at the latest.

In any cases where, exceptionally, the [employer] has engaged without including contractual clauses allowing the [employer] to seek assurance as to their tax obligations – or where assurance has been requested and not received, without a contract termination – the [employer] 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 “No. 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 departments are still waiting for information from the individual at the time of reporting should be reported as “No. for whom assurance has not been received”.

Table 3: Off-payroll board member/senior official engagements

For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2016 and 31 March 2017

Number of off-payroll engagements of board members, and/or senior officers with significant financial responsibility, during the financial year (1)	
Total no. of individuals on payroll and off-payroll that have been deemed “board members, and/or, senior officials with significant financial responsibility”, during the financial year. This figure should include both on payroll and off-payroll engagements.(2)	

Note

(1) There should only be a very small number of off-payroll engagements of board members and/or senior officials with significant financial responsibility, permitted only in exceptional circumstances and for no more than six months

(2) As both on payroll and off-payroll engagements are included in the total figure, no entries here should be blank or zero

3. Financial Reporting Requirements

Government Financial Reporting Manual (*FReM*)

- 3.1. The financial reporting requirements for the Departmental Group are determined by the Department of Health with the approval of HM Treasury. The Department of Health have a role as the relevant authority for agreeing the reporting requirements for the group, and therefore any concerns about the content of this manual should be raised with the Department or the relevant national body, rather than directly with HM Treasury. See paragraphs 1.7 – 1.9 for details of how the *FReM* requirements are reflected, as appropriate, in this manual.

Generally accepted accounting practice (GAAP)

- 3.2. This manual follows GAAP to the extent that it is meaningful and appropriate to the Departmental Group. It was announced in the Government's 2008 budget that public sector bodies would produce financial statements based on International Financial Reporting Standards (IFRS) from 2009-10. From that year, therefore, GAAP consists of:

- the accounting and disclosure requirements of the Companies Act 2006, and
- pronouncements by or endorsed by the International Accounting Standards Board (IASB) including the Framework for the Preparation and Presentation of Financial Statements, International Financial Reporting Standards and interpretations,

interpreted as necessary by

- the body of accumulated knowledge built up over time and promulgated in, for example, textbooks, technical journals and research papers.

International Financial Reporting Standards (IFRS)

- 3.3. The IASB *Framework for the Preparation and Presentation of Financial Statements (the Framework)* sets out the principles that should underlie general purpose financial statements, the objective of which is to provide information about the financial position, performance and changes in financial position. Presentation should meet the 'common needs of most users'.
- 3.4. This manual follows IFRS, as adopted by the EU, to the extent that it is relevant and appropriate to the Departmental Group.
- International Financial Reporting Standards 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

EU-adopted IFRS

- 3.5. 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.
- 3.6. HM Treasury's approach in the *FReM* is to apply EU-adopted IFRS with some adaptations and interpretations. Group bodies should apply IFRS as adopted by HM Treasury in the *FReM* as listed in **Chapter 3 Annex 1: Standards and applicability to the Departmental Group**, except where additional departures and interpretations have been agreed by Department of Health, as specified in **Chapter 3 Annex 5: Departures from the *FReM***.

Companies Act 2006 requirements

- 3.7. Although the use of IFRS means that the main GAAP requirements of the Companies Act 2006 do not apply to the Departmental Group, there are nevertheless some disclosure requirements that remain applicable. Requirements for the Departmental Group are listed in the **Chapter 3 Annex 3: Companies Act 2006 Requirements**.

Users of the annual report and accounts

- 3.8. 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:
- an NHS foundation trust's council of governors
 - members of an NHS foundation trust
 - patients and their carers
 - Parliament, including relevant Select Committees
 - NHS Improvement and other regulatory bodies
 - the Department of Health
 - HM Treasury
 - board of directors and audit committee
 - commissioners and

- the taxpayer.

3.9. *The Framework* sets out the principles that the IASB believes should underlie the preparation and presentation of financial statements for users. The preparers of departmental group annual report and accounts should familiarise themselves with these principles.

Chapter 3 Annex 1: Standards and applicability to the Departmental Group

1. The Government *FReM* and the *Group Accounting Manual* follow International Financial Reporting Standards (as adopted by the European Union) and interpretations to the extent that they are meaningful and appropriate to public benefit entities: the *FReM* often applies interpretations and adaptations to EU-adopted Standards. The table below provides, for each international financial reporting standard and interpretation:
 - its objective
 - as dictated by the *FReM*, its applicability to the NHS, including any interpretations and adaptations
 - a listing of those Standards not yet adopted.
2. Disclosure requirements are reflected in proforma accounts and detailed guidance issued outside this manual.
3. International Financial Reporting Standards can be obtained from the International Accounting Standards Board (IASB) at www.ifrs.org.

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
International Accounting Standards (IAS)	
<p>IAS 1 Presentation of Financial Statements (as amended June 2011)</p> <p>IAS 1 prescribes the basis for presentation of general purpose financial statements to ensure comparability with the entity's financial statements of previous periods and with the financial statements of other entities. The standard sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.</p> <p>Further details in the GAM: 4.16 to 4.20, 4.34, 4.82 to 4.87, 5.1 to 5.3, 5.26 to 5.28, 5.54, 5.69, 6.1 to 6.3, 7.1</p>	<p>Applies in full with the following interpretations:</p> <p>References in IAS 1 to 'present fairly' and 'fair presentation' should be read to mean 'give a true and fair view' and 'truthful and fair presentation' to comply with the requirements of the Companies Act 2006.</p> <p>The notes to the accounts shall disclose the legislative authority for producing the accounts and the basis of preparation of the financial statements as being in accordance with the Group Accounting Manual.</p> <p>The following provide the interpretations of going concern for the public sector context:</p> <ul style="list-style-type: none"> • for entities that are not trading funds, 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.

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
	<p>However, a trading entity needs to consider whether it is appropriate to continue to prepare its financial statements on a going concern basis where it is being, or is likely to be, wound up.</p> <ul style="list-style-type: none"> • Entities whose SoFPs show net liabilities should prepare financial statements on the going concern basis unless the Department considers the going concern basis inappropriate. • Where an entity ceases to exist, it should consider whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern for the final set of financial statements. <p>Group bodies (other than providers) within the departmental accounting boundary shall prepare a Statement of Comprehensive Net Expenditure (SoCNE) rather than a Statement of Comprehensive Income. Providers will prepare a Statement of Comprehensive Income (SOI).</p> <p>For consistency across the group, the option under IAS1 to present the information as two statements has been withdrawn.</p> <p>The flexibility to select the order of presentation of line items in the Statement of Financial Position and to present on a liquidity basis is withdrawn. NHS bodies shall prepare their Statement of Financial Position in accordance with this manual and their respective pro forma accounts.</p> <p>Capital disclosures (IAS 1.79-80A and 134-136A) are not required. This is because the financing of public sector entities is ultimately tax-based.</p>
<p>IAS 2 Inventories</p> <p>The objective of IAS 2 is to prescribe the accounting treatment for inventories. It provides guidance on the determination of cost and its subsequent recognition as</p>	<p>Applies with interpretations re strategic reserves and certain other central government categories.</p> <p>Where any inventories are considered to be “strategic” in the context of stockpiling for national emergencies,</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
<p>an expense, including any write-down to net realisable value.</p> <p>Further details in the GAM: 6.71 to 6.72</p>	<p>they should be treated as non-current assets.</p>
<p>IAS 7 Statement of Cash Flows</p> <p>The objective of IAS 7 is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows that classifies cash flows during the period from operating, investing and financing activities.</p> <p>Further details in the GAM: 6.77 to 6.80, 7.2 to 7.6</p>	<p>Applies in full for the departmental group.</p> <p>Applies with interpretation for core Department of Health to include disclosure of cash flows with the Consolidated Fund..</p>
<p>IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors</p> <p>The objective of IAS 8 is to prescribe the criteria for selecting and changing accounting policies, and the accounting treatment and disclosure of changes in accounting policies, accounting estimates and corrections of errors.</p> <p>Further details in the GAM: 4.15 to 4.30</p>	<p>Applies in full.</p> <p>Note:</p> <p>Preparers should consult finance leads (see below) about any novel or contentious accounting policies they might propose to adopt to reflect their specific circumstances.</p> <p>Where preparers consider it necessary to adjust retrospectively for changes in accounting policies or material errors, they should first consult finance leads (see below) to ensure that the budgeting and Estimates implications have been properly considered.</p> <p>With the exception of NHS foundation trusts, preparers will need to differentiate between local prior period adjustments and centrally required adjustments to opening balances and the DEL and AME impact of any such adjustments.</p> <p>Finance leads: CCGs should consult NHS England. NHS FTs should consult NHS Improvement.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
	All others should consult DH.
<p>IAS 10 Events after the Reporting Period</p> <p>This standard prescribes when an entity should adjust its financial statements for events after the reporting period and the disclosures required.</p> <p>Further details in the GAM: 4.35, 7.25 to 7.27</p>	<p>Applies in full with the following interpretation, for providers:</p> <p>Any unpaid dividends for the year will be shown as liabilities in the Statement of Financial Position. (This is because public dividend capital is not an equity instrument as defined by IAS 32).</p>
<p>IAS 11 Construction Contracts</p> <p>The objective of IAS 11 is to prescribe the accounting treatment by contractors of revenue and costs associated with construction contracts.</p>	Not relevant to NHS bodies other than as referred to by IAS 18.21 regarding the rendering of services.
<p>IAS 12 Income Taxes</p> <p>The objectives of IAS 12 are to specify the accounting for current and deferred tax.</p>	Applies in full where tax liabilities on income are required.
<p>IAS 16 Property, Plant and Equipment</p> <p>The objective of IAS 16 is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment.</p> <p>Further details in the GAM: 6.7 to 6.32, Chapter 6 Annex 3, 7.11 to 7.13</p> <p>Also, see:</p> <p>IAS 23 <i>Borrowing costs</i></p> <p>IAS 36 <i>Impairment of assets</i></p> <p>IFRS 5 <i>Non-current assets held for sale and</i></p>	<p>Applies in full with the following interpretations and adaptations:</p> <p>Interpretations:</p> <p>All tangible non-current assets shall be carried at either current value in existing use or fair value at the reporting date. The option in IAS 16 to measure at cost is withdrawn, as is the option to value only certain classes of assets.</p> <p>It is not necessary to disclose the historical cost carrying amounts.</p> <p>In considering the treatment of interest at initial recognition, entities shall not capitalise the Cost of Capital charge.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
<p><i>discontinued operations.</i></p> <p>IFRIC 1 <i>Changes in Existing Decommissioning, Restoration & Similar Liabilities</i></p> <p>IFRIC 12 <i>Service Concession Arrangements</i></p> <p>IFRIC 18 <i>Transfers of Assets from Customers</i></p>	<p>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.</p> <p>Adaptations:</p> <p>Assets which are held for their service potential (i.e. operational assets) and are in use should be measured at current value in existing use. For non-specialised assets current value in existing use should be interpreted as market value for existing use. In the RICS Red Book, this is defined as Existing Use Value (EUV). 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.</p> <p>Assets which were most recently held for their service potential but are surplus should be valued at current value in existing use as above 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.</p> <p>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. Where such assets are surplus and do not fall within the scope of IFRS5 or IAS 40, they should be valued at fair value applying IFRS13.</p> <p>Note: The <i>FReM</i> permits entities to elect to adopt a depreciated historical cost basis as a proxy for current value in existing use or fair value for assets that have short useful lives or low values (or both). <i>FReM</i> 7.1.14 refers. Disclosure is required if this option is taken, and the assumptions about economic life and depreciation methods provide a reasonable reflection of the consumption of that asset class.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
	<p>Note: Group bodies shall discuss any significant proposals to change asset lives with the sponsoring authority, to ensure that the budgeting implications have been considered</p>
<p>IAS 17 Leases</p> <p>The objective of IAS 17 is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to leases.</p> <p>Further details in the GAM: 5.67, 6.57 to 6.60, 7.16 to 7.22</p> <p>Also see:</p> <p>SIC 15 <i>Operating leases – incentives</i></p> <p>SIC 27 <i>Evaluating the substance of transactions involving the legal form of a lease</i></p> <p>IFRIC 4 <i>Determining whether an arrangement contains a lease</i></p> <p>IFRIC 12 <i>Service Concession Arrangements</i></p>	<p>Applies in full.</p>
<p>IAS 18 Revenue</p> <p>The objective of IAS 18 is to identify the circumstances when revenue recognition criteria will be met. It also provides practical guidance on the application of those criteria.</p> <p>Further details in the GAM: 5.4 to 5.15, 5.51 to 5.53</p> <p>Also see:</p> <p>SIC-27 <i>Evaluating the substance of transactions involving the legal form of a lease</i></p> <p>SIC 31 <i>Revenue – barter transactions involving advertising services</i></p>	<p>Applies in full.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
<p>IAS 19 Employee benefits</p> <p>IAS 19 prescribes the accounting and disclosures for all types of employee benefits:</p> <ul style="list-style-type: none"> • short-term benefits, for example salaries and wages, social security contributions, paid leave and non-monetary benefits • post-employment benefits that result from employment, for example retirement benefits • other long-term benefits, for example long service or sabbatical leave • termination benefits, that is, that arise directly from termination rather than from employment. <p>It requires an entity to recognise the cost of providing employee benefits in the period in which the benefit is earned rather than when paid or payable</p> <p>Further details in the GAM: 5.29 to 5.34, 5.59 to 5.62, 5.64 to 5.66, 6.96 to 6.97</p> <p>Also see IFRIC 14: <i>IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i></p>	<p>Applies with the following interpretations:</p> <p>NHS bodies shall account for the NHS Superannuation Scheme as a defined contribution plan.</p> <p>For NHS bodies with staff who are in funded schemes e.g. the local government scheme:</p> <ul style="list-style-type: none"> • The discount rate determined in accordance with IAS 19 by the scheme's actuary should be used. <p>Voluntary terminations with agreed terms under a pension scheme should be treated as post-employment benefits and so discounted using the rate applicable to pensions of that scheme. Involuntary terminations and voluntary terminations whose terms are available for a short time only should be treated as termination benefits and so discounted using the rate for provisions.</p> <p>For defined benefit obligations, the <i>FReM</i> interprets IAS 19's requirements on current valuations to mean that the period between formal actuarial valuations should be four years, with approximate valuations in intervening years.</p>
<p>IAS 20 Accounting for Government Grants and Disclosure of Government Assistance</p> <p>The objective of IAS 20 is to prescribe the accounting treatment for government grants and the disclosures about other government assistance.</p> <p>Further details in the GAM: 5.16 to 5.20</p> <p>Also see SIC 10 <i>Government assistance – no specific relation to operating activities</i></p> <p>IFRIC 12 <i>Service Concession Arrangements</i></p>	<p>Applies in full with the following interpretations:</p> <p>The option provided in IAS 20 to offset a grant for acquisitions of an asset against the cost of the asset has been withdrawn.</p> <p>The option provided in IAS 20 to defer grant income relating to an asset is restricted to income where the funder imposes a condition. Where assets are financed by government grant (not a grant from a sponsoring department to an NDPB) or donation (including lottery funding), the funding element is recognised as income and taken through the Statement of Comprehensive Net Expenditure. To defer this income, a condition imposed by the funder must be: a requirement that the future economic benefits embodied in the grant/donation are consumed as specified by the grantor/donor or must be</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
	<p>returned to them, e.g. a grant that is conditional on the construction of an asset. Trading Funds, where they have the consent of the Relevant Authority, need not apply this interpretation.</p> <p>A grant, contribution or donated asset may be received subject to a condition that it be returned to the transferor if a specified future event does or does not occur (for example, a grant may need to be returned if the entity ceases to use the asset purchased with that grant for a purpose specified by the transferor). 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 conditions do not prevent the grant, contribution or donated asset being recognised as income in the Statement of Comprehensive Net Expenditure.</p> <p>Note: Parliamentary Supply does not fall within the meaning of government grants.</p>
<p>IAS 21 The Effects of Changes in Foreign Exchange Rates</p> <p>The objective of IAS 21 is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentational currency.</p> <p>Further details in the GAM:</p> <p>7.2 to 7.6</p> <p>Also see:</p> <p>SIC-7 <i>Introduction of the euro</i></p> <p>IFRIC 16 <i>Hedges of a net investment in a foreign operation</i></p>	<p>Applies in full with the following interpretation:</p> <p>The presentational currency will be the same as the functional currency i.e. pounds sterling.</p>
<p>IAS 23 Borrowing Costs</p> <p>The objective of IAS 23 is to prescribe the accounting</p>	<p>Applies in full with the following interpretations:</p> <p>Borrowing costs in respect of qualifying assets held at</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
<p>for borrowing costs.</p> <p>Further details in the GAM:</p> <p>6.52 to 6.55</p> <p>Also see:</p> <p>IAS 16 <i>Property, plant & equipment</i></p> <p>IAS 17 <i>Leases</i></p> <p>IAS 39 <i>Financial instruments – recognition & measurement</i></p> <p>IFRIC 1 <i>Changes in existing decommissioning, restoration & similar liabilities</i></p>	<p>fair value shall be expensed.</p>
<p>IAS 24 Related Party Disclosures</p> <p>The objective of IAS 24 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.</p> <p>Further details in the GAM:</p> <p>7.28 to 7.32</p>	<p>Applies in full with the following interpretations:</p> <p>Group bodies must disclose the Department of Health as the parent department; a note of the main entities within the public sector with which the body has had dealings (no information needs to be given about these transactions), and details of material transactions between the body and individuals who are regarded as related parties.</p> <p>The requirement to disclose the compensation paid to management, expense allowances and similar items paid in the ordinary course of an entity's operations will be satisfied by the disclosures made in the notes to the accounts and in the remuneration report.</p> <p>In considering materiality, regard should be had to the definition in IAS 1, which requires materiality to be judged 'in the surrounding circumstances'. As a result, materiality should thus be judged from the viewpoint of both the entity and the related party, whether it is an individual or a corporate body.</p> <p>Group bodies must disclose as a related party all linked charities (unless formally consolidated) including the nature of the relationship, and details of material transactions between the body and the linked charity.</p> <p>Group bodies should note the amendment to IAS 24</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
	contained within Annual Improvements to IFRS 2010-12, relating to key management personnel services provided by another entity, which may be of particular interest to organisations which have buddying/support arrangements with other organisations.
<p>IAS 26 Accounting and Reporting by Retirement Benefit Plans</p> <p>The objective of IAS 26 is to provide guidance on the form and content of the financial statements prepared by retirement benefit plans.</p>	Not applicable
<p>IAS 27 Separate Financial Statements</p> <p>IAS 27 requires parent undertakings to provide information about the economic activities of their group as a single economic entity in consolidated financial statements.</p> <p>Further details in the GAM: 4.36 to 4.39</p> <p>Also see: SIC 12 <i>Consolidation – special purpose entities</i></p>	<p>Applies in full, except for the following adaptation:</p> <p>The presentation of separate, non-consolidated financial statements will only be applied in full if the investment has not been designated for consolidation by order of the relevant authority under statutory instrument.</p>
<p>IAS 28 Investments in Associates and Joint Ventures</p> <p>The objective of IAS 28 is to reflect the effect of investments in associates and joint ventures where the reporting entity is partly accountable for the associate's activities.</p> <p>Further details in the GAM: 4.36 to 4.39, 4.52 to 4.53, 7.7</p>	<p>Applies with the following adaptation:</p> <p>Where the Department has an investment in another public sector entity that has not been designated for consolidation, it should be reported following the requirements of IAS 39.</p> <p>Executive agencies should follow the requirements of IAS 28 with respect to public sector entities only if the entities are within the Department's consolidation boundary.</p> <p>The Department and executive agencies should apply IAS 28 without adaptation to bodies classified to the</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
	private sector and rest of the world by the ONS. ALBs and NHS bodies should apply IAS 28 without adaptation.
<p>IAS 29 Financial Reporting in Hyperinflationary Economies</p> <p>IAS 29 requires the financial statements of an entity whose functional currency is that of a hyperinflationary economy to be stated in terms of the measuring unit current at the end of the reporting period.</p>	Unlikely to be relevant.
<p>IAS 32 Financial Instruments: Disclosure and Presentation</p> <p>IAS 32 establishes principles for presenting financial instruments as liabilities or equities and for offsetting financial assets and financial liabilities.</p> <p>Further details in the GAM: 6.66 to 6.69, Chapter 6 Annex 1</p> <p>Also see: IAS 39 <i>Financial instruments: recognition and measurement</i> FRS 7 <i>Financial instruments: disclosures</i> IFRIC 9 <i>Reassessment of embedded derivatives</i></p>	Applies in full with the following interpretation: Public dividend capital (PDC) is not an equity instrument as defined by the IAS. It should be presented as a form of financing in the Statement of Financial Position. Dividends on PDC should be presented as a form of financing in the Statement of Comprehensive Income in arriving at a providers retained surplus/deficit for the year..
<p>IAS 33 Earnings per Share</p> <p>The objective of IAS 33 is to prescribe principles for the determination and presentation of earnings per share to improve performance comparisons.</p>	Not relevant.
<p>IAS 34 Interim Financial Reporting</p> <p>IAS 34 prescribes the minimum content of an interim</p>	NHS bodies are not required to publish interim financial reports at present. Applies in full to a body that elects to

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
financial report and the principles for recognition and measurement for an interim period. Also see: IFRIC 10: <i>Interim Financial Reporting and Impairment</i> .	do so.
<p>IAS 36 Impairment of Assets</p> <p>The objective of IAS 36 is to ensure that assets are carried at no more than their recoverable amount.</p> <p>Further details in the GAM: 6.43 to 6.51, 7.11 to 7.13</p> <p>Also see:</p> <p>IAS 16 <i>Property, plant & equipment</i></p> <p>IAS 38 <i>Intangible assets</i></p> <p>IFRIC 1 <i>Changes in existing decommissioning, restoration & similar liabilities</i></p> <p>IFRIC 10 <i>Interim financial reporting & impairment</i></p> <p>IFRIC 12 <i>Service concession arrangements</i></p>	<p>Applies in full with the following adaptations and interpretations :</p> <p>Adaptations</p> <p>Where an impairment arises from a clear consumption of economic benefit, this must be taken in full to the revenue account, whatever the state of the revaluation reserve on that asset.</p> <p>In other words, the Standard's requirement to take impairments in all cases to reserves in the first instance does not apply.</p> <p>Where impairments are posted to the revenue account and a revaluation reserve balance does exist, a transfer is to be made from the revaluation reserve to the General Fund/I&E Reserve. That transfer will be the lower of the total impairment or the balance available on the revaluation reserve.</p> <p>For impairments that do not represent a clear consumption of economic resources (generally, market/price fluctuations) the treatment is to take these to the revaluation reserve in the first instance to the extent that a balance exists for that asset, with any excess taken to the revenue account.</p> <p>Interpretations</p> <p>Where an asset is not held for the purpose of generating cash flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential.</p> <p>Note: <i>FReM's</i> adaptation of IAS 36 applies only to the</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
	recognition of impairments. Otherwise, IAS 36 applies in full. It follows then that reversals of impairments will be accounted for as in the Standard.
<p>IAS 37 Provisions, Contingent Liabilities and Contingent Assets</p> <p>The objective of IAS 37 is to ensure that provisions, contingent liabilities and contingent assets are appropriately recognised and measured and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount.</p> <p>Further details in the GAM: 6.81 to 6.93, Chapter 6 Annex 2, 7.23 to 7.24</p> <p>Also see:</p> <p>IFRIC 1 <i>Changes in existing decommissioning, restoration & similar liabilities</i></p> <p>IFRIC 14 <i>IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction</i></p>	<p>Applies in full with the following interpretation:</p> <p>Where the cash flows to be discounted are expressed in current prices, entities should use the real discount rates set by Treasury each year via PES papers.</p> <p>Note – voluntary early retirement provisions under scheme terms are discounted at the pensions rate rather than the general provisions rate:</p> <p>Treasury sets discount rates for post-employment benefits including injury benefit liabilities.</p> <p>(See Chapter 6 for more detail on Treasury standard discount rates)</p>
<p>IAS 38 Intangible Assets</p> <p>IAS 38 prescribes the measurement and accounting for intangible assets that are not specifically dealt with in another standard. It requires an entity to recognise an intangible asset if, and only if, specific criteria are met. The standard also specifies how to measure the carrying amount of intangible assets and requires specific disclosures about intangible assets.</p> <p>Further details in the GAM: 6.7 to 6.22, 6.35 to 6.42</p> <p>Also see:</p> <p>IAS 36 <i>Impairment of assets</i></p> <p>SIC 32 <i>Intangible assets – web site costs</i>.</p>	<p>Following the initial recognition of an intangible asset, for subsequent measurement IAS 38 permits the use of either the cost or revaluation model for each class of intangible asset.</p> <p>Where an active (homogeneous) market exists, intangible assets other than those that are held for sale should be carried at current value in existing use at the reporting period date – that is, the cost option given in IAS 38 has been withdrawn and the current value should be based on the market value in existing use.</p> <p>Where no active market exists, entities should revalue the asset, using indices or some suitable model, to the lower of depreciated 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</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
	depreciated replacement cost.
<p>IAS 39 Financial Instruments: Recognition and Measurement</p> <p>The objective of IAS 39 is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.</p> <p>Further details in the GAM: 6.66 to 6.69, Chapter 6 Annex 1</p> <p>Also see:</p> <p>IAS 32 <i>Financial instruments: presentation</i></p> <p>IFRS 7 <i>Financial instruments: disclosures</i></p> <p>IFRIC 9 <i>Reassessment of embedded derivatives</i></p> <p>IFRIC 16 <i>Hedges of a net investment in a foreign operation</i></p>	<p>Applies in full with the following interpretations:</p> <p>The core department should report public dividend capital at historical cost, less any impairment.</p> <p>Where future cash flows are required to be discounted to measure fair value, entities should use the higher of the rate intrinsic to the financial instrument and the real discount rate set by HM Treasury, as applied to the flows expressed in current prices.</p> <p>Liabilities under financial guarantee contracts that are not accounted for as insurance contracts should be measured initially at their fair value and, as appropriate, amortised subsequently to expenditure. Subsequent changes in probabilities should not be reflected in the carrying value except where the result is that IAS 37 would require recognition of a liability because it is more probable than not that a transfer of resources will occur.</p> <p>Any financial instrument that is not held in furtherance of the entity's objectives, but is held on behalf of government more generally, should be accounted for in a separate Trust Statement. In the event that this situation arises, entities should discuss with DH.</p> <p>Note: IAS 39 includes a number of alternative accounting treatments. Entities should discuss any significant choices to be made with the sponsoring authority to ensure that the budgeting implications have been properly considered.</p>
<p>IAS 40 Investment Property</p> <p>The objective of IAS 40 is to prescribe the accounting treatment for investment property and related disclosure requirements.</p> <p>Further details in the GAM: 6.7 to 6.22, 6.61 to 6.64</p>	<p>Applies in full with the following interpretations:</p> <p>Where properties are held for income generation or capital investment as their primary purpose then IAS 40 will apply. Such properties should be measured at their fair value, that is, the cost option in the standard is withdrawn.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
<p>IAS 41 Agriculture</p> <p>The objective of IAS 41 is to prescribe the accounting treatment and disclosures related to agricultural activity, which is the management of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.</p>	<p>Not relevant.</p>
<p>International Financial Reporting Standards (IFRS)</p>	
<p>IFRS 1 First-time Adoption of International Financial Reporting Standards</p> <p>The objective of IFRS 1 is to ensure that the entity's first IFRS financial statements contain high quality information that:</p> <ul style="list-style-type: none"> • is transparent for users and comparable over all periods presented; • provides a suitable starting point for accounting under IFRS, and • can be generated at a cost that does not exceed the benefits to users 	<p>Applies with the following interpretation::</p> <p>Financial Statements to be prepared under the historical cost convention, modified by the revaluation of assets and liabilities to fair value as determined by the relevant account standard, and so the elections available in IFRS 1.16, 17 and 18 are not relevant..</p>
<p>IFRS 2 Share-based Payment</p> <p>The objective of IFRS 2 is to specify the financial reporting by an entity when it undertakes a share-based payment transaction under which the entity acquires or receives goods or services.</p>	<p>Not relevant.</p>
<p>IFRS 3 Business Combinations</p> <p>IFRS 3 requires business combinations to be accounted for using the purchase method (also known as the</p>	<p>Applies in full to any combination of an NHS body with an entity outside the public sector.</p> <p>IFRS 3 does not apply to combinations involving entities under common control. The combination of two or more</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
<p>acquisition method).</p> <p>Further details in the GAM:</p> <p>4.63 to 4.81</p>	<p>public sector bodies (i.e. entities within the boundary of the Whole of Government Accounts) into one new body, or the transfer of functions from one part of the public sector to another shall be accounted for using the absorption-based approach set out in the <i>FReM</i>.</p> <p>Note: Where two or more providers are dissolved and a new one established, as required under legislation public dividend capital equal to the value of the net assets transferring to the new body will be issued.</p>
<p>IFRS 4 Insurance Contracts</p> <p>The objective of IFRS 4 is to specify the financial reporting for insurance contracts by an entity that issues such contracts (the insurer)</p>	<p>Not relevant.</p>
<p>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</p> <p>IFRS 5 sets out requirements for the classification, measurement and presentation of non-current assets held for sale.</p> <p>Further details in the GAM:</p> <p>5.46 to 5.48, 6.7 to 6.22, 6.65</p> <p>Also see:</p> <p>IAS 16: <i>Property, plant & equipment</i></p> <p>IAS 36: <i>Impairment of assets</i></p> <p>IAS 38: <i>Intangible assets</i></p>	<p>Applies in full with the following interpretation:</p> <p>To qualify as ‘discontinued operations’ activities must cease completely. Responsibilities transferred from one part of the public sector to another are not discontinued operations.</p> <p>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.</p> <p>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.</p>
<p>IFRS 6 Exploration for and Evaluation of Mineral Resources</p> <p>The objective of IFRS 6 is to specify the financial</p>	<p>Not relevant.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
<p>reporting for the exploration for and evaluation of mineral resources.</p>	
<p>IFRS 7 Financial Instruments: Disclosures</p> <p>The objective of IFRS 7 is to require entities to provide disclosures in their financial statements that enable users to evaluate</p> <ul style="list-style-type: none"> • the significance of financial instruments to the entity’s financial position and performances; and • the nature and extent of risks from financial instruments and how the entity manages those risks. <p>Further details in the GAM:</p> <p>5.54, 5.69, 6.66 to 6.69, 6.72 to 6.75, Chapter 6 Annex 1</p> <p>Also see:</p> <p><i>IAS 32 Financial instruments: presentation</i></p> <p><i>IAS 39 Financial instruments: recognition and measurement</i></p> <p><i>IFRIC 9 Reassessment of embedded derivatives</i></p>	<p>Applies in full.</p>
<p>IFRS 8 Operating Segments</p> <p>The objective of IFRS 8 is to require an entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which it operates.</p> <p>Further details in the GAM:</p> <p>5.42 to 5.45</p>	<p>Applies in full.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
<p>IFRS 10 Consolidated Financial Statements</p> <p>The objective of this IFRS is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.</p> <p>Further details in the GAM: 4.36 to 4.51, 4.62, 6.6</p>	<p>ALBs should apply in full, without adaptation.</p> <p>For the Department and agencies, subsidiaries will be consolidated only if they are designated for consolidation (on classification by the ONS to the public sector).</p> <p>Otherwise, the Department and agencies will account for subsidiaries as investments under IAS 39 <i>Financial instruments: recognition & measurement</i>.</p>
<p>IFRS 11 Joint Arrangements</p> <p>The objective of the IFRS is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).</p> <p>Further details in the GAM: 4.36 to 4.39, 4.54 to 4.57, Chapter 4 Annexes 1 & 2, 7.7.</p>	<p>ALBs should apply in full without adaptation.</p> <p>For the Department and agencies, will apply in full only where bodies are designated to the private sector and rest of the world by ONS.</p> <p>The Department and agencies will apply IAS 39 <i>Financial instruments: recognition & measurement</i> to investments in a public sector body that has not been designated for consolidation.</p> <p>Better Care Fund pooled budgets (set up under s75 of the NHS Act 2006) are likely to involve accounting for "joint operations" as set out in the Standard.</p>
<p>IFRS 12 Disclosure of Interests in Other Entities</p> <p>The objective of this IFRS is to require an entity to disclose information that enables users of its financial statements to evaluate:</p>	<p>For ALBs, the Standard is applied in full.</p> <p>Disclosure of interests in other entities is subject to the <i>FReM</i> adaptations to IFRS 10, IFRS 11, IAS 27 and IAS 28.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
<p>(a) the nature of, and risks associated with, its interests in other entities; and</p> <p>(b) the effects of those interests on its financial position, financial performance and cash flows.</p> <p>Further details in the GAM: 4.36 to 4.39, 4.58 to 4.61</p>	
<p>IFRS 13 Fair Value Measurement</p> <p>This IFRS:</p> <p>(a) defines fair value;</p> <p>(b) sets out in a single IFRS a framework for measuring fair value; and</p> <p>(c) requires disclosures about fair value measurements.</p> <p>Further details in the GAM: 6.7 to 6.32</p>	<p>Applies in full, although IAS 16 and IAS 38 have been adapted and interpreted for the public sector context to limit the circumstances in which a valuation is prepared under IFRS 13.</p>
<p>Standards Interpretation Committee (SIC) Interpretations</p>	
<p>SIC 7 Introduction of the Euro</p> <p>The requirements of IAS 21 regarding the translation of foreign currency transactions and financial statements of foreign operations should be strictly applied to the changeover to the Euro.</p>	<p>Would apply in full but not relevant at present.</p>
<p>SIC 10 Government Assistance – No Specific Relation to Operating Activities</p> <p>Government assistance to entities meets the definition of government grants in IAS 20 even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. Such grants shall</p>	<p>Applies in full with the following interpretations:</p> <p>Parliamentary Supply does not fall within the meaning of government grants.</p> <p>Entities receiving a grant to fund the purchase of a specific asset should credit that grant to the revenue account, unless such conditions are attached to the grant that it cannot be recognised immediately (in which</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
not be credited directly to equity. Also see: IAS 20 <i>Accounting for government grants & disclosure of government assistance</i>	case the value of the receipt will be credited to deferred income).
<p>SIC 15 Operating Leases – Incentives</p> <p>All incentives for the agreement of a new or renewed operating lease shall be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the nature of the incentive or the timing of payments.</p> <p><u>Further details in the GAM:</u> 6.56 to 6.60</p> <p>Also see: IAS 17 <i>Leases</i></p>	Applies in full.
<p>SIC 25 Income Taxes – Changes in the Tax Status of an Entity or its Shareholders</p> <p>A change in tax status does not give rise to increases or decreases in amounts recognised directly in equity unless the consequences relate to transactions and events that result in a direct charge or credit to equity.</p>	Not relevant.
<p>SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease</p> <p>A series of transactions that involve the legal form of a lease is linked and shall be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole.</p>	Applies in full.

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
<p><u>Further details in the GAM:</u> <u>6.56 to 6.60, 7.16 to 7.22</u></p> <p>Also see: IAS 17 <i>Leases</i> IAS 18 <i>Revenue</i></p>	
<p>SIC 29 Service Concession Arrangements: Disclosures</p> <p>SIC 29 lists the disclosure requirements for service concession arrangements.</p> <p><u>Further details in the GAM:</u> <u>Chapter 6 Annex 4</u></p> <p>Also see: IFRIC 12 <i>Service concession arrangements</i>.</p>	<p>The disclosures should be provided for all PFI and LIFT schemes where they are accounted for as service concession arrangements.</p>
<p>SIC 31 Revenue – Barter Transactions Involving Advertising Services</p> <p>Revenue from an exchange involving advertising services cannot be reliably measured by reference to the fair value of the services received. This is because reliable information is not available to the seller to support such measurement. However, a seller can reliably measure revenue at fair value of the advertising service it provides in a barter transaction.</p> <p>Also see: IAS 18: <i>Revenue</i></p>	<p>Applies in full.</p>
<p>SIC 32 Intangible Assets – Web Site Costs</p>	<p>Applies in full.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
<p>SIC-32 lays down the conditions for an entity to recognise internal web site development costs as an intangible asset</p> <p>Further details in the GAM:</p> <p>6.35 to 6.42</p> <p>Also see:</p> <p>IAS 38: <i>Intangible assets</i></p>	
IFRS Interpretations Committee (IFRIC) Interpretations	
<p>IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities</p> <p>IFRIC 1 prescribes the accounting for changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources, or a change in the discount rate.</p>	<p>The circumstances are unlikely to arise. If they do, applies in full.</p>
<p>IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments</p> <p>The entity must consider all the terms and conditions of the financial instrument in determining its classification as a financial liability or equity.</p>	<p>Not relevant.</p>
<p>IFRIC 4 Determining whether an Arrangement contains a Lease</p> <p>Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether:</p> <ul style="list-style-type: none"> fulfilment of the arrangement is dependent on the 	<p>Applies in full.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
<p>use of a specific asset or assets; and</p> <ul style="list-style-type: none"> the arrangement conveys a right to use the asset. <p>Further details in the GAM: <u>6.7 to 6.22, 6.56 to 6.60, 7.16 to 7.22</u></p> <p>See also: IAS 17 <i>Leases</i>.</p>	
<p>IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</p> <p>The contributor to a fund shall recognise its obligation to pay decommissioning costs as a liability and recognise its interest in the fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay.</p>	<p>Not relevant.</p>
<p>IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</p> <p>A liability for waste management costs for historical household equipment does not arise as the products are manufactured or sold. There is no obligation unless and until a market share exists during the measurement period.</p>	<p>Not relevant</p>
<p>IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</p> <p>In the reporting period in which the entity first adopts IAS 29, the entity shall apply the requirements of IAS 29 as if the economy had always been hyperinflationary.</p> <p>Also see: IAS 29: <i>Financial reporting in hyperinflationary</i></p>	<p>Unlikely to be relevant.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
<i>economies</i>	
<p>IFRIC 9 Reassessment of Embedded Derivatives</p> <p>An entity shall assess whether an embedded derivative is required under IAS 39 to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.</p> <p>Further details in the GAM: 6.66 to 6.69, Chapter 6 Annex 1</p> <p>Also see: IAS 32 <i>Financial instruments: presentation</i> IAS 39 <i>Financial instruments: recognition & measurement</i> IFRS 7 <i>Financial instruments: disclosure</i></p>	<p>Applies in full.</p>
<p>IFRIC 10 Interim Financial Reporting and Impairment</p> <p>An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.</p> <p>See also: IAS 34 <i>Interim Financial Reporting</i>.</p>	<p>NHS bodies are not required to publish interim financial reports at present. Applies in full to a body that elects to do so.</p>
<p>IFRIC 11: IFRS 2 - Group and Treasury Share Transactions</p>	<p>Unlikely to be relevant.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
<p>IFRIC 12 Service Concession Arrangements</p> <p>IFRIC 12 deals primarily with public-to-private service concession arrangements for the delivery of public services. It applies only to concession agreements where the use of the infrastructure is controlled by the grantor.</p> <p>Further details in the GAM: 6.7 to 6.22, Chapter 6 Annex 4</p> <p>Also see: SIC 29 <i>Service Concession Arrangements: Disclosures</i></p>	<p>The <i>FReM</i> interprets IFRIC 12 to apply ‘mirror accounting’ arrangements to infrastructure service concession arrangements. In practice this means that the assets of most PFI schemes and many NHS LIFT schemes will be accounted for as Property, Plant and Equipment. The application of this interpretation is complex.</p> <p>NHS bodies should refer to both Treasury’s guidance ‘Accounting for PPP arrangements including PFI contracts under IFRS’ in chapter 6 of the Financial Reporting Manual (<i>FReM</i>) at http://www.hm-treasury.gov.uk/frem_index.htm (7.1.44 et seq) and the DH guidance on accounting for PFI and NHS LIFT under IFRS published on the finance guidance pages of GOV.UK.</p>
<p>IFRIC 13 Customer Loyalty Programmes</p> <p>An entity shall account for award credits as a separately identifiable component of the sales transaction(s) in which they are granted.</p>	<p>Not relevant</p>
<p>IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</p> <p>An entity shall determine the availability of a refund or a reduction in future contributions in accordance with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan.</p> <p>An entity shall analyse any minimum funding requirement at a given date into contributions that are required to cover (a) any existing shortfall for past service on the minimum funding basis and (b) the future accrual of benefits.</p> <p>If an entity has an obligation under a minimum funding</p>	<p>Potentially relevant where NHS bodies have pension assets and liabilities for staff who remain in a Local Government Pension Scheme.</p> <p><i>FReM</i> Chapter 6 lists the adaptations and interpretations of IAS 19 relevant to the public sector.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
<p>requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received, the entity shall determine whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan.</p> <p>Also see:</p> <p>IAS 19 <i>Employee benefits</i></p> <p>IAS 37 <i>Provisions, contingent liabilities & contingent assets</i></p>	
<p>IFRIC 15 Agreements for the Construction of Real Estate</p> <p>If an entity contracts to deliver goods or services in addition to the construction of real estate, the agreement may need to be split into separately identifiable components.</p>	Not relevant
<p>IFRIC 16 Hedges of a Net Investment in a Foreign Operation</p> <p>Hedge accounting may be applied only to the foreign exchange differences arising between the functional currency of the foreign operation and the parent entity's functional currency.</p> <p>Also see:</p> <p>IAS 21 <i>The effects of changes in foreign exchange rates</i></p> <p>IAS 39 <i>Financial instruments: recognition & measurement</i></p>	Unlikely to be relevant.
<p>IFRIC 17 Distributions of non-cash assets to owners</p> <p>This interpretation clarifies how an entity should measure distributions of assets, other than cash, when it</p>	Applicable.

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the <i>FReM</i>)
pays dividends to its owners.	
<p>IFRIC 18 Transfer of assets from customers</p> <p>This interpretation clarifies the accounting for arrangements where an item of property, plant and equipment, which is provided by the customer, is used to provide an ongoing service.</p> <p>Also see IFRIC 12 <i>Service concession arrangements</i></p>	Applicable.
<p>IFRIC 19 Extinguishing financial liabilities with equity instruments</p>	Unlikely to be relevant
<p>IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine</p>	Not relevant
<p>IFRIC 21 Levies</p>	Applicable.

Chapter 3 Annex 2: Accounting Standards and amendments issued but not yet adopted in the *FReM*

The following table presents a list recently issued accounting standards and amendments which have not yet been adopted within the *FReM*, and are therefore not applicable to Departmental Group accounts in 2016/17.

Standards issued or amended but not yet adopted in <i>FReM</i>	
IFRS 9 Financial Instruments	Application required for accounting periods beginning on or after 1 January 2018, but not yet adopted by the <i>FReM</i> : early adoption is not therefore permitted.
IFRS 14 Regulatory Deferral Accounts	Not yet EU-endorsed.* Not applicable to NHS bodies as IFRS has already been adopted.
IFRS 15 Revenue from contracts with customers	Application required for accounting periods beginning on or after 1 January 2018, but not yet adopted by the <i>FReM</i> : early adoption is not therefore permitted.
IFRS 16 Leases	Application required for accounting periods beginning on or after 1 January 2019, but not yet adopted by the <i>FReM</i> : early adoption is not therefore permitted. .

* The European Financial Reporting Advisory Group recommended in [October 2015](#) that the standard should not be endorsed as it is unlikely to be adopted by many EU countries.

Chapter 3 Annex 3: Companies Act 2006 Requirements

The following table lists the financial reporting requirements under Companies Act 2006, and how they are applicable to the accounts of departmental group bodies..

CA2006 Reference	Regulations Reference ²	Description
Section 409	Regulation 7 and Schedule 4	Information about related undertakings in a note to the accounts
Section 410A³		Information about off-Statement of Financial Position arrangements in a note to the accounts
Section 411		Information about employee numbers and costs in a note to the accounts. For NHS bodies, staff numbers are included in the staff report within the annual report.
Section 412 (1) to (5)	Regulation 8 and Schedule 5	Not required by the <i>FReM</i> , as these requirements are considered to be met by the preparation of a remuneration report as part of the annual report.
Section 413		NHS foundation trusts only: Information about directors' benefits: advances, credit and guarantees, in a note to the accounts
Sections: 414A(1),(3) and (4); 414C and 414D(1)⁴		Strategic Report These requirements are adapted into the Performance Report: see chapter 2 (for bodies other than NHS foundation trusts).
Sections: 415(1) to (3) 416⁵; 418(1) to (4); and 419(1).	Regulation 10 ⁵ and Schedule 7 ⁵	Directors' report These requirements are adapted for the public sector: see chapter 2 (for bodies other than NHS

² "The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)"

³ Inserted in the Act by "The Companies Act 2006 (Accounts and Reports) (Amendment) Regulations 2008 (SI 2008/393)"

⁴ As modified / inserted by "The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (SI 2013/1970)"

CA2006 Reference	Regulations Reference²	Description
		foundation trusts).
Sections: 420(1); 421(1) to (2); and 422(1).	Regulation 11 and Schedule 8	<p>Quoted Companies: Directors' Remuneration Report</p> <p>Section 497 which requires auditors to report on elements of the directors' remuneration report in the audit opinion is applicable.</p> <p>These requirements are adapted for the public sector: see chapter 2 (for bodies other than NHS foundation trusts)</p>
Sections 426 and 426A⁵		<p>Contents of strategic report with supplementary material</p> <p>(applicable only if the entity chooses to prepare an additional performance overview report with supplementary material)</p>

Chapter 3 Annex 4: Other Relevant Accounting Pronouncements

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	<i>FReM</i> reference
Accounting for value added tax (VAT).	FRS 102 paragraph 29.20	None
Accounting for Heritage Assets	FRS 102 paragraphs 34.49 to 34.35	7.1.30 to 7.1.47

Chapter 3 Annex 5: Departures from the FReM

1. HM Treasury accepts that the following are fundamental differences within the accounting group leading to some agreed departures from the FReM. The departures can be seen in the table below.

Agreed departures from the FReM

FReM Requirement	Departure	Applicable to
Companies Act 2006 disclosures on directors' benefits and remuneration	<p>The information on directors' other benefits required by section 413 of the Companies Act 2006 (set out in paragraphs 5.71 to 5.72) should be disclosed in a note to the accounts, 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 the FT ARM.</p> <p>The table in Chapter 3 Annex 3 lists the parts of the Companies Act that apply and where guidance can be found in the FT ARM.</p>	NHS foundation trusts only
Public Dividend Capital	Public Dividend Capital issued by the department on the creation of new NHS trusts, or written off on the dissolution of NHS trusts, is debited/credited to the General Fund rather than the Consolidated Statement of Comprehensive Net Expenditure.	Department of Health only
FReM 1.1.2: "...all entities ('reporting entities'), and to funds, flows of income and expenditure and any other accounts (referred to collectively as 'reportable activities') that are prepared on an accruals basis and consolidated within Whole of Government Accounts (with the exception of the accounts of any reportable activities that are not covered by an Accounts Direction)";	Receipts of National Insurance Contributions from the National Insurance Fund are recognised on a cash, rather than an accruals, basis.	Department of Health only

Chapter 3 Annex 6: 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 will be provided by NHS Improvement, but these must be tailored by each body for their own circumstances. NHS foundation trusts should declare in the summarisation schedules if they depart from the example policies.
Revenue from patient care activities	NHS foundation trusts should analyse their income both by nature and by source, as required in the foundation trust summarisation schedules (FTCs). 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.

4. Financial Statements: Accounting Policy and application of standards

Introduction

- 4.1 This chapter, and the following chapters 5, 6 and 7, address the significant application issues that affect the Department of Health (DH) group and does not refer to International Financial Reporting Standards (IFRS) where there are no NHS-specific aspects to full IFRS application. It also outlines the additional requirements for group consolidation in general: there are additional requirements placed on NHS bodies (e.g. in handling prior-period adjustments, inter-authority transactions and reporting formats) that go beyond the straightforward application of Standards. Further sector specific information will be appended to this and other chapters of the manual where supplementary guidance is required.

Annual Accounts Format

Primary Financial Statements

- 4.2 The annual accounts must include a set of primary financial statements. The format of these statements must be followed precisely, as communicated by the sector finance leads, and include all headings except where the value of both current and comparative prior year is nil.
- 4.3 Departmental Group bodies must include the following primary statements :
- Statement of Comprehensive Net Expenditure (SoCNE) or Statement of Comprehensive Income (SoCI); **Note:** the FReM departure regarding the naming of this statement will be communicated by sector leads
 - Statement of Financial Position (SoFP)
 - Statement of Changes in Taxpayers' Equity (SoCTE)
 - Statement of Cash Flows (SoCF)

Notes relevant to the financial statements

- 4.4 An entity has discretion over the presentation of the notes to the accounts. In applying discretion, the entity must be mindful of materiality, and where this manual makes clear specific disclosure requirements which must be followed.
- 4.5 Although entities may apply discretion in presenting their disclosures, they must continue to ensure consistency between the accounts and the summarisation schedules. For NHS

foundation trusts, disclosures entitled 'note' in the summarisation schedules (FTCs) should be included in the accounts but entities have discretion over their precise format and may be omitted if immaterial.

Example Accounts Format

- 4.6 Illustrative, or example, accounts formats are provided by finance sector leads to assist with the completion of the accounts. The example formats show the format required for the primary statements and examples of how the notes to the financial statements should be presented.
- 4.7 The example accounts formats applicable to each area of the Departmental Group are as follows:
- NHS Trusts should use the NHS Trust linked accounts template, which provides a link between the FIMS form (summarisation schedule) and the example accounts format for NHS Trusts. This will be published in early 2017.
 - Arm's Length Bodies should refer to the Agency Pink/NDPB Green illustrative account, published by HM Treasury. The format for 2016-17 is already published, however HMT may make updates to the format at any time up to December 2016.
 - NHS foundation trusts should refer to the example FT accounts template published by NHS Improvement, but this is not mandatory for use. Any concerns over the form and content of the annual accounts should be discussed with NHS Improvement.
 - Clinical commissioning groups do not currently have a published accounts format. Any concerns over the form and content of the annual accounts should be raised with NHS England.

Summarisation schedules

- 4.8 As described in paragraph 1.11, summarisation schedules refer to the method of collecting accounts data by the Department of Health, Monitor (operating as NHS Improvement) and NHS England for accounts consolidation purposes. The summarisation schedule is provided by these bodies in a set format to ensure all data required for completion of the accounts is collected.
- 4.9 While discretion applies in the format of the published annual report and accounts based on the application of materiality, group bodies should complete the whole of the summarisation schedule. While balances may not be material at an entity level, the totals may aggregate across the sector/group to a material level that the parent entity would need to disclose on consolidation. There are other data requests in the schedules which provide additional assurance to the accounts, such as agreement of balances data, or for other purposes, such as management information or Whole of Government Accounts completion.
- 4.10 Before submission to the parent body, it is important for any validation issues to be cleared. This helps provide assurance for the consistency of data submitted to the

parent, and also for the entities annual accounts. Entities may also be required to provide their audited annual accounts to the parent body or the department for consistency checking. Completion guidance and submission timetables will be released towards the end of 2016.

True and fair view

- 4.11 The financial statements should give a true and fair view of the state of affairs of the reporting body at the end of the financial year and of the results of the year. Section 393 of the Companies Act 2006 requires that directors must not approve accounts unless they are satisfied that they give a true and fair view. In applying section 393, any reference to 'company' should be read to mean 'NHS body', and for CCGs "director" to mean "Governing Body Member".

Accounting convention

- 4.12 The financial statements are prepared under the historical cost convention modified by the revaluation of non-current assets and, where material, current asset investments and inventories, and certain financial assets and liabilities, to fair value as determined by the relevant accounting standards, and subject to the interpretations and adaptations of those standards made in the *FReM*.

Accounting policies and materiality

- 4.13 Departmental Group bodies should adopt accounting policies which provide the most relevant and reliable information on completion of the annual accounts. Example accounting policies may be provided by the sector finance leads (see below), and the relevance of such policies to the accounts and disclosures is described in more detail in Chapters 5 – 7:
- NHS trusts may find example accounting policies in the NHS Trust Linked Accounts template;
 - NHS foundation trusts may find example accounting policies alongside the example accounts template issued by NHS Improvement;
 - Clinical Commissioning groups should contact NHS England for details of accounting policies relevant to the commissioning sector;
 - ALBs should contact the department for further guidance where required, Due to the varied nature of business in the ALB sector, the department does not provide example policies.
- 4.14 There is no requirement to disclose policies that are irrelevant or immaterial to the entity in the accounting policies note.

- 4.15 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”.
- 4.16 Similarly, IAS 1 notes that specific disclosure requirements of IFRS need not be satisfied if the information is not material. Both IAS 1 and IAS 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.”
- 4.17 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.

Key sources of judgement and estimation uncertainty

- 4.18 Under IAS 1, Presentation of Financial Statements, group bodies should disclose information about key sources of estimation uncertainty at the SoFP date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year. Notes must give details of their nature and carrying amount at the SoFP date. It will be for each entity 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
- 4.19 The determination of the carrying values of some assets and liabilities may require estimation of the effects of future uncertain events. Examples include the estimation of the recoverable amount of plant, property and equipment in the absence of recently observed market prices, or the assumptions underlying the estimation of material provisions.
- 4.20 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*.

Errors in the financial statements

- 4.21 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. Further information regarding prior period adjustments can be found in paragraph 4.26.

Changes in accounting policy

- 4.22 An entity may change an accounting policy only where it is required by a new standard or interpretation (including any revisions to this manual) 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.
- 4.23 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.
- 4.24 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. Any difference between the reported financial results and the adjusted financial results should be reported, as described in the standard. The restatement should be replicated in the relevant sections of the summarisation schedules.
- 4.25 Where an entity has to make a prior period adjustment (for any reason other than an adjustment required by the manual), they should inform the relevant sector finance lead so that the appropriate information can be collected for consolidation. Further information regarding prior period adjustments can be found in paragraph 4.26.

Prior period adjustments (PPAs)

- 4.26 In preparing the Departmental Group accounts, the department must make a distinction between:
- Those PPAs which will require restatement of the consolidated accounts including, but not limited to, changes in accounting policy, machinery of government changes, errors material to the consolidated accounts, and
 - PPAs requiring local restatement, under IAS 8. These may include, but are not limited to, errors material to the entity (but not consolidated) accounts.
- 4.27 In the case of the former, the *FReM* and this manual will usually prescribe the appropriate handling arrangements, and the Department will issue detailed guidance on

restatement of accounts and the collection of restated data via summarisation schedules where appropriate, even if immaterial at a local body level.

- 4.28 Local PPAs present difficulties in terms of reconciling local accounts data with that in national consolidated accounts. Generally, the correct application of IAS8 will result in a requirement for local accounts to be restated, but the rules that apply to the Department's accounts will likely require these to be recorded 'in year' given that they are unlikely to be material nationally.

Impact for bodies other than NHS foundation trusts

- 4.29 As a result, individual local PPAs may appear in the local statutory accounts but such PPAs will not be reflected in the brought-forward balances in the summarisation schedules. If the national consolidated account is not to be restated, it follows that opening 1 April xx balances reported to the Department must be identical to closing 31 March xx balances. Similarly, at the national level, prior period comparator income and expenditure figures will be unchanged. The resulting inconsistency between local accounts and the summarisation schedules based on those accounts is handled by clear disclosures of the nature and impact of the PPA (as required by IAS 8) and a detailed reconciliation in the schedules between the accounts and the schedules opening balances.

Impact for NHS foundation trusts only

- 4.30 NHS foundation trusts should ensure that the summarisation schedules submitted to NHS Improvement (FTCs) are always consistent with their accounts. FTs should therefore apply IAS 8 to both its accounts and summarisation schedules but must explain any PPAs in the PPA tab of the FTC form. This enables NHS Improvement to recategorise the PPA upon consolidation and reporting to the Department.

Gross and Net accounting

- 4.31 The overarching principle is that transactions should be accounted for in accordance with accounting standards, with all treatments having been agreed by both parties. Generally, this means revenue income and expenditure should be recorded gross unless the transaction is of a non-trading nature and an organisation is deemed to have transferred risks and rewards and be acting solely as an agent.
- 4.32 An organisation is acting as an agent if it has transferred risks and rewards to the other party. For example, in the case of staff secondments, if the member of staff concerned is off sick for a period of time, and the employing organisation would need to send a replacement to the receiving organisation, then the risks of employment of that individual have not been transferred and both parties should use gross accounting. On the other hand, if no substitute would be sent and the receiving organisation would continue to pay, this may indicate that the risks have been transferred and net accounting may be used.

- 4.33 To avoid mismatches during the agreement of transactions and balances process, it is important that each arrangement is assessed individually against the relevant accounting standards and that the treatment is agreed between parties. In particular, if net accounting is used by a commissioning or intermediary organisation, the ultimate purchaser and supplier will need to be told against whom to record the transactions and balances to ensure these will net out on consolidations (further specific guidance on agreement of balances will be published in time for the Q2, interim and year-end agreement exercises).

Comparative amounts

- 4.34 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

- 4.35 IAS 10, Events after the Reporting Period, requires the entity to consider whether financial statements require adjustment as a result of events occurring after the reporting date. In accordance with the interpretation of IAS 10 relating to Public Dividend Capital, dividends paid after the reporting date should be accrued as a liability in the Statement of Financial Position. Likewise, any overpayments of dividend at the financial year-end should be recorded as an asset.

Group Accounting Standards

Consolidated Accounts

- 4.36 The following Group Accounting Standards are relevant, subject to the *FReM* guidance on applicability:
- IFRS 10, Consolidated Financial Statements
 - IFRS 11, Joint arrangements
 - IFRS 12, Disclosure of Interests in Other Entities
 - IAS 27, Separate Financial Statements
 - IAS 28, Investments in Associates and Joint Ventures
- 4.37 The DH group boundary is determined by the control criteria used by the ONS, rather than by reference to the standards, meaning that public bodies will only be consolidated by the Department or its agencies if they have been classified to the Departmental group by the ONS. However, ALBs (as defined in paragraph 4.39) will apply group accounting standards without adaptation or interpretation. This raises the possibility, where investments in other entities are material at the national level, that consolidation adjustments may be required between individual accounts (which may consolidate bodies in accordance with IFRS 10 but outside of ONS accounting boundary) and the

consolidated account and budgets (which must not consolidate any bodies outside of the ONS boundary). Where the question of materiality at the national level arises, entities should discuss with their sponsoring organisations with a view to their agreeing treatments with DH.

4.38 The table below summarises the impact of the statements taken together on Department of Health Group bodies.

4.39 For the purpose of application of the following standards, NHS trusts, NHS foundation trusts and CCGs are considered to be ALBs as defined by the *FReM* (1.4.1). In this context, ALB does not apply to executive agencies, who are deemed to form part of the core-Department of Health.

Investment	Department and agencies' accounting treatment	ALB accounting treatment
Entity has control over investee. <i>IFRS 10 Consolidated Financial Statements</i> applies, as adapted for the Department	If the subsidiary is designated to the DH boundary by virtue of a SI following ONS classification: Consolidate per IFRS 10 If subsidiary is a public sector body not designated or is classified as a public corporation: Treat as investment per IAS 39 - <i>Financial Instruments: Recognition and Measurement</i>	Apply IFRS 10 in full and without adaptation in Statutory Accounts. NHS foundation trusts should ensure the FTC submission is consistent with the statutory accounts All other ALBs should complete the summarisation schedules on a single entity basis unless the impact is not material to the Group returns (contact DH to discuss further).
Entity has investments in joint ventures or associates that are outside the public sector.	If the investee is classified to the private sector and the rest of the world by ONS: Apply IAS 28 - Investments in Associates and Joint Ventures and apply the equity method of accounting.	Apply IAS 28 in full and without adaptation in Statutory Accounts.
A joint arrangement exists	For joint arrangements classified to the Departmental boundary by ONS, (para 4.37) IFRS 10 will apply. If the investment is in another public sector body or public corporation: Treat as investment per IAS 39 - <i>Financial Instruments: Recognition and Measurement</i> as above If the investment is with a body classified to the private sector and rest	Apply IFRS 11 – Joint Arrangements in full and without adaptation.

	of the world by the ONS: Apply IFRS 11 without adaptation.	
Disclosures	<p>IFRS 12 - <i>Disclosure of Interests in Other Entities</i> is required to be applied by an entity that has an interest in subsidiaries, joint arrangements and associates. The Standard also provides guidance on the disclosure requirements of unconsolidated structured entities.</p> <p>IAS 27 – <i>Separate Financial Statements</i> is applicable in full if the investment has not been designated for consolidation, and where an entity elects to present separate financial statements in accounting for investments in subsidiaries, joint ventures and associates.</p>	

Subsidiaries (IFRS 10)

(In this section, the term ALB is used as defined in paragraph 4.39)

- 4.40 Under IFRS 10, an ALB 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 body's involvement with the investee; i.e. there does not need to be a formal financial investment in the entity.
- 4.41 Power over the investee occurs where the ALB has existing rights that give it the current ability to direct the relevant activities i.e. the activities that significantly affect the returns the ALB receives from the investee.
- 4.42 If the ALB determines that an entity is a subsidiary then it should consolidate the subsidiary in accordance with IFRS 10.
- 4.43 The annual report and accounts of the ALB then includes both the group accounts and individual accounts of the ALB.

Presentation and disclosure

- 4.44 The principles of IFRS 10 will be applied to all entities in which the ALB has an interest, including NHS charitable funds (see section below).
- 4.45 The primary statements and notes to the accounts should be presented with separate 'Group' and 'Parent Entity' columns. An NHS trust or NHS foundation trust may title this column "Trust" if it wishes. Foundation trusts may 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.

4.46 More widely, where the ALB determines that the difference between the 'Group' and 'Parent Entity' numbers is immaterial for a particular note, the 'Parent Entity' version of that note may be omitted from the accounts. The omission and the extent of the immaterial differences should be explained in each note.

NHS Charities: local consolidation by provider bodies

4.47 Under IFRS 10, and where the criteria related to control of the charity applies, and subject to materiality, charitable funds related to the NHS trust or NHS foundation trust should be consolidated.

4.48 There is an additional requirement for the Department of Health to consolidate NHS Charities which have been classified by ONS as within the public sector, into the national Departmental Group accounts. In this sense, "NHS Charities" is defined by section 43 of the Charities Act 1993, and includes those charities where trustees were appointed by the Appointments Commission under NHS Acts.

4.49 NHS bodies will therefore need to distinguish between:

- Those charitable funds that fall to be consolidated in the provider body's own accounts under IFRS 10; and
- Funds classified to the public sector by ONS, which the Department will separately consolidate as required by its designation order.

4.50 Where the NHS charitable funds are consolidated by the provider body, the statement of financial position should present charitable unrestricted funds, restricted funds and endowments as a single item of charitable reserves, with separate analysis and explanation of these funds in a note to the accounts where applicable. To record any charitable income, additional line items are also likely to be needed in the statement of comprehensive income, statement of cash flows, and within the supporting notes.

4.51 Provider bodies are reminded that charitable funds are prepared in line with the Charities Statement of Recommended Practice (SORP). As a consequence, consolidation adjustments may be required to align the charitable funds results with those prepared by the trust under IFRS and the *FReM*. The preparation of statements of account by the charitable fund will also be prepared to a different timetable, as issued by the Charities Commission. The provider should therefore discuss with the fund how best to obtain the charitable funds data for consolidation in time to meet the providers own accounts timetable.

Associates (IAS 28)

(In this section, the term ALB is used as defined in paragraph 4.39)

4.52 An entity is an associate of an ALB where the group body 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 ALB 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.

- 4.53 Where an associate exists, the ALB 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 ALB 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)

(In this section, the term ALB is used as defined in paragraph 4.39)

- 4.54 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.
- 4.55 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.
- 4.56 A joint operation exists where the parties sharing joint control have rights to the assets and obligations for the liabilities relating to the arrangement. Where an ALB is a joint operator it should recognise its, or its share of, assets, liabilities, income and expenses in its own accounts.
- 4.57 A joint venture exists where the parties sharing joint control have rights to the net assets of the arrangement. Where an ALB has entered into a joint venture, it should recognise its investment in its own group accounts through the equity method in IAS 28 (unless exempted from doing so under that standard). In its separate financial statements, the ALB recognises its interest in the joint venture in accordance with paragraph 10 of IAS 27.

Disclosure of interests in other entities (IFRS 12)

(In this section, the term ALB is used as defined in paragraph 4.39)

- 4.58 The standard sets out disclosure requirements, including summarised financial information, for investments in subsidiaries, joint arrangements and associates. Where an ALB has such interests, the required disclosures should be included in the accounts. The disclosures relating to subsidiaries will also apply to the consolidation of NHS charitable funds.
- 4.59 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.

- 4.60 While IFRS 12 applies in full, ALBs 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 an ALB has a number of interests to disclose, if applicable.
- 4.61 The ALB 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

(In this section, the term ALB is used as defined in paragraph 4.39)

- 4.62 Where an ALB 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 accounting policies of the ALB.

Business Combinations

Acquisition of a business from outside the WGA boundary

- 4.63 Where a departmental group body acquires a business from outside of the Whole of Government Accounts boundary, it should be accounted for in accordance with IFRS 3.
- 4.64 Where IFRS 3 is applicable, the combination is accounted for at fair value at the date of combination. Goodwill arising from the transaction is accounted for as an asset: it is not amortised but is subject to impairment testing as required by IAS 36, *Impairment of Assets*.

Acquisition/Transfer of a business from inside the WGA boundary

- 4.65 Under IFRS 3, public sector bodies are deemed to be under common control. Where a function transfers between a departmental group body and 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.
- 4.66 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”.

- 4.67 Departmental group bodies will normally account for transfers of function to/from another group body as a 'transfer by absorption'. This incorporates bodies within the Department of Health's Resource Accounting Boundary, and also extends to and transfers of functions involving local government bodies.
- 4.68 Where the transfer from the group body is to/from another body within the WGA boundary (not under the Departmental Resource Accounts Boundary), the machinery of government change would be accounted for as a "transfer by merger" The *FReM* describes the required accounting in such cases.

Transfer by absorption

- 4.69 Where a departmental group body 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 (i.e. the recipient and exporter of the assets and liabilities recognise the same values). The corresponding net credit / debit reflecting the gain / loss is recognised within income / expenses, but outside of operating activities.
- 4.70 The pre-transfer income, expenses, assets and liabilities of the group body are not adjusted to include any pre-transfer activity of the function.
- 4.71 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 body's accounts.
- 4.72 Where any assets received had an attributable revaluation reserve balance in the transferring entity's accounts, this is preserved in the group body's accounts by it transferring the relevant amount from its income and expenditure reserve to its revaluation reserve.

Example 1:

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.

- 4.73 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 the departmental group body explain the effects of these changes in a note to their accounts.
- 4.74 Where, instead the departmental group body 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.
- 4.75 The pre-transfer activities of the function remain in the group body's accounts. The only adjustments made are in respect of the assets and liabilities actually transferring, as described above.
- 4.76 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 (see example 2 below).

Example 2:

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 summarisation schedules (after the 1 June transfer) will contain only PDC reserve of £40m and an I&E reserve of (£40m).

- 4.77 Where control of a charitable fund passes to an NHS body (i.e. a demising trust's charitable fund is transferred to another trust through a change of corporate trustee) and this meets the definition of control, the local group accounts prepared by the NHS body may need to record an 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 group. Where the funds of a demising charity are transferred into an 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 local group accounts.

Business combinations disclosure

- 4.78 A departmental group body that receives the transfer of functions, assets or liabilities must disclose:
- the fact that the transfer has taken place
 - a brief description of the transfer, including:
 - the date of the transfer
 - the name of the body that transferred the function:
 - the effect on the financial statements and

- the historical financial performance of the function, to enable users to understand the operational performance.
- 4.79 The party that transfers the functions, assets or liabilities outwards should provide similar disclosures. Where that body has dissolved, the final set of accounts should contain an “events after the balance sheet date” disclosure, giving this detail, see **Chapter 1 Annex 3: Reporting requirements on change of status**.
- 4.80 Summarisation schedules will require a more detailed analysis to enable the transitions to be reconciled between transferor and transferee.
- 4.81 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.

Going concern

- 4.82 The *FReM* notes that in applying paragraphs 25 to 46 of IAS 1, preparers of financial statements should be aware of the following interpretations of Going Concern for the public sector context.
- 4.83 For non-trading entities in the public sector, the anticipated continuation of the provision of a service in the future, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence of going concern. Departmental Group bodies should therefore prepare their accounts on a going concern basis unless informed by the sponsoring authority of the intention for dissolution without transfer of services or function to another entity, or there is no realistic alternative but to do so. A trading entity needs to consider whether it is appropriate to continue to prepare its financial statements on a going concern basis where it is being, or is likely to be, wound up.
- 4.84 Sponsored entities whose statements of financial position show total net liabilities should prepare their financial statements on the going concern basis unless, after discussion with their sponsors, the going concern basis is deemed inappropriate.
- 4.85 Where an entity ceases to exist, it should consider whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern in its final set of financial statements.
- 4.86 Where a Departmental Group body is aware of material uncertainties in respect of events or conditions that cast significant doubt upon the going concern ability of the entity, these uncertainties should be disclosed. This may include for example where continuing operational stability depends on finance or income that has not yet been approved.

- 4.87 Should a group body have concerns about its “going concern” status (and this will only be the case if there is a prospect of services ceasing altogether) it should raise the issue with its sponsoring authority as soon as possible.

Chapter 4 Annex 1 – Accounting for the Better Care Fund

Introduction

1. Clinical Commissioning Groups (CCGs) and NHS providers will be aware of the Better Care Fund initiative. CCGs will have agreements in place and will operate pooled budgets with Local Authorities (LAs) from 1st April 2015. [NHS England's website](#) notes that:

The BCF initiative creates “a local single pooled budget to incentivise the NHS and local government to work more closely together around people, placing their well-being as the focus of health and care services”.

This part of the NHSE website contains the planning guidance and other resources in respect of BCF. Other valuable guidance: “*Pooled Budgets and the Better Care Fund*” was produced in October 2014 by HFMA/CIPFA.

2. In accounting for BCF activity, no new approaches, policies or interpretations of Standards are required. CCGs and NHS providers will have had extensive experience of the various types of healthcare commissioning arrangements, including joint arrangements and the use of pooled budgets (PBs) by PCTs/CCGs and LAs in the past.
3. This additional guidance is required because:
 - (a) the BCF is a major policy initiative (involving NHS spend of £3.8bn at a minimum, of which £3.46bn is in CCG ring-fenced allocations, that is necessarily high-profile and will attract a great deal of attention from members of the public and Ministers alike;
 - (b) local BCF arrangements may be complex and varied, involving a number of valid commissioning and accounting arrangements that raise risks of misunderstanding, inconsistencies and confusion between members of a BCF PB internally and between commissioners and providers;
 - (c) as a consequence of (a) and (b), there are risks to both NHS England and Department of Health consolidated accounts, particularly where transactions and balances within the NHS family are not consistently treated and recorded and so cannot be properly eliminated on national consolidations.
 - (d) there are budgetary and cash control implications arising from BCF and other pooled budget arrangements. PBs need to be organised and managed in a way that permits CCGs and NHS England to correctly report income, expenditure and cash flows at the appropriate time, while meeting Treasury cash control requirements. In a lead commissioner arrangement, for example, there must be no significant gap between

the date that CCGs recognise expenditure and that at which NHS providers recognise income.

4. This supplementary guidance therefore seeks to set some overarching principles that must be followed to comply with the *Department of Health Group Accounting Manual 2016-17 (GAM 2016-17)* (and, additionally for NHS foundation trusts, the *NHS foundation trust annual reporting manual 2016-17*).
5. A key objective of this guidance is to ensure that all parties to BCF transactions (CCGs and LAs⁵ as commissioners, and LAs, FTs and NHS trusts as providers) have a clear understanding of their own and their counter-parties' accounting and reporting arrangements. This will facilitate the identification and agreement of transactions and balances at the end of quarterly and annual reporting periods, making the intra-NHS agreement-of-balances exercises less resource-intensive than would otherwise be the case.

Guidance – key points summary

6. Relevant Standards and their impact on BCF/Section 75 arrangements are discussed below. In summary:
 - When determining the appropriate accounting arrangements for the BCF, it is essential to establish what relevant activities are to be undertaken and whether participants have control, either jointly or solely, over the arrangement. To do this, participants' rights and obligations, and the powers that they confer, must be clearly recorded and understood. Entities need to consider what activities fall within the scope of the arrangement: there may be one framework agreement that embraces a number of different activities. Where the parties' rights and obligations differ between different activities, accounting treatments may also differ.
 - While a "model" BCF arrangement is likely to be a "*joint operation*", some contractual arrangements may contain rights and obligations that establish patterns of control that require a different treatment (where, for example, sole control is exercised).
 - An entity that has, through the pooled budget s75 agreement, powers to enter into contracts with providers is likely to be considered as being a "*lead commissioner*" and

⁵ Local authorities account for their collaborative arrangements under the specifications of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). They may find this guidance as useful background, in particular explaining the NHS context, while continuing to comply with the Code.

as such would account for all the transactions and balances with providers, other pool members reflecting their share of assets, liabilities, income and expenditure by recording transactions and balances with the lead body, rather than with end-providers (by “gross accounting”).

- In cases of joint contracting where pool budget members are parties to the contract, they account for their share directly with the end provider (by “net accounting”).
- Members of the pool that have passed cash to a “host” entity to fund the activity of the pool will reflect their rights to that resource by raising a receivable balance with that host. (It would be extremely rare for a member to transfer cash unconditionally, such that the recipient exercise unfettered control over it.)
- Providers need to ensure that they are in close contact with PB members to ensure that intra-NHS income, expenditure and balances are aligned, not least for “agreement of balances purposes”.

Establishment of the Fund: “Section 75” agreements

7. For that part of BCF allocations from NHS England to CCGs that represent the baseline funding of £3.46bn, CCGs and LAs **must** enter into pooled budgets set up under s75⁶ arrangements. NHS England has statutory powers to retain or recover funds that are not applied in accordance with approved plans and through a s75 PB agreement.
8. There is no requirement to physically transfer cash from any entity to the host in order to have a pooled budget arrangement under s75. The PB is an accounting concept that does not have to be represented by the creation of a pooled cash resource. Members can produce a memorandum PB account, funded by cash that remains with the members, as long as there is a clear understanding that that amount of cash has been committed by members for joint operations.
9. BCF guidance issued by NHS England provides a [template s75 agreement](#)⁷ and advice on the drafting of such agreements. The guidance emphasises the crucial importance of

⁶ Section 75 of the NHS Act 2006

⁷ The s75 template includes a reference to the need to have the Audit Commission audit the PB. Following the abolition of the Commission, it is important that Fund members ensure that satisfactory arrangements are in place to provide audit assurance meet the Members’ needs, including assurance for their own statutory audits.

having a comprehensive agreement that covers: the aims of the fund; governance arrangements; individual organisations' responsibilities; plans and accountability.

10. As part of the s75 drafting and agreement process, CCGs must ensure that (a) they and other members of the PB fully understand both the cash flows and accounting/reporting arrangements for the PB, and (b) the hosting body can and will provide pool members and NHS providers with all the financial data required on a timely basis to allow them to correctly analyse and report their transactions with PB members.
11. In particular, agreements must ensure that pool members and NHS providers are given, on at least a quarterly basis and soon enough to be useful, statements that detail their underlying transactions with the appropriate pool member counterparty, as this will be necessary for: monitoring spend and funding; NHS accounts preparation; and agreement-of-balances purposes.

Section 75 agreements: accounting issues

12. Members will need to consider the precise nature of the contractual terms contained in s75 agreements when deciding on the appropriate accounting treatment for the arrangement. The following Standards are particularly relevant to pooled budgets and collaborative working arrangements:
 - IFRS 10 Consolidated Financial Statements
 - IFRS 11 Joint Arrangements
 - IFRS 12 Disclosure of Involvement with Other Entities
13. While the use of "standard" s75 agreement formats, coupled with consideration of the wider BCF policy objectives, may suggest a *joint arrangement*, the detail of the individual agreement might point to a different approach. Given that a PB might contain a number of distinct funding streams for a variety of commissioning arrangements, it is possible that different accounting treatments will apply to different elements of a Fund.
14. As a first stage, members will need to understand what rights, obligations and powers are conferred on members through the s75 contractual arrangements. Crucially, it is necessary to determine where control of the operation lies.

Control

15. IFRS 10 Consolidated Financial Statements invokes the concept of *control* when establishing whether or not consolidated financial statements should be prepared by an investor. An investor controls an investee if it has all the following:
- power over the investee
 - exposure, or rights, to variable returns from its involvement with the investee
 - the ability to use its power over the investee to affect the amount of the investor's returns
16. Power arises from the rights of the investor, and exists where the investor has existing rights that give it the current ability to direct the relevant activities, ie the activities that significantly affect the investee's returns
17. It is highly unlikely that any PB member would be considered as having control over the Fund. Sole control would be contrary to the spirit of the BCF policy, and would be unexpected in the context of s75 agreements intended to promote collaborative working. Assuming that the agreement points to joint, rather than single, control, it is necessary to consider IFRS 11 *Joint Arrangements*.
18. A *joint arrangement* is one of which two or more parties have *joint control*. *Joint control* 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* may be either a *joint operation* or *joint venture*.
19. A *joint arrangement* that is not structured through a *separate vehicle*⁸ is a *joint operation*. As BCF s75 arrangements do not involve the use of separate vehicles, an arrangement in which joint control is present is considered to be a joint operation. This guidance therefore centres on accounting for joint operations, as this is the most likely format of a BCF s75 arrangement. (But note that for some streams of funding and contracting, the correct accounting may differ from the joint operation model).

Accounting for a joint operation

20. IFRS 11 (paragraphs 20-23) provides that:

21. A joint operator shall recognise in relation to its interest in a joint operation:

⁸ A separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality

- (a) its assets, including its share of any assets held jointly;
- (b) its liabilities, including its share of any liabilities incurred jointly;
- (c) its revenue from the sale of its share of the output arising from the joint operation;
- (d) its share of the revenue from the sale of the output by the joint operation; and
- (e) its expenses, including its share of any expenses incurred jointly.

22. A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

23. The accounting for transactions such as the sale, contribution or purchase of assets between an entity and a joint operation in which it is a joint operator is specified in IFRS 11 standard application guidance paragraphs B34–B37. The joint operator is conducting the transaction with the other parties to the joint operation and, as such, the joint operator shall recognise gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.

24. Similarly, on the purchase of assets from the joint operation, a joint operator may not recognise any gains and losses associated with that purchase until those assets are sold to a third party.

25. A party that participates in, but does not have joint control of, a joint operation shall also account for its interest in the arrangement in accordance with paragraphs 23–25 above if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation. If a party that participates in, but does not have joint control of, a joint operation does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it shall account for its interest in the joint operation in accordance with the IFRSs applicable to that interest.

Application of IFRS 11 to BCF Pooled Budgets

26. The following key points are relevant:

- A pooled budget is not an entity: members (and indeed providers) will not hold balances with the PB at any stage, nor record transactions with the PB itself. The

Standard's Application Guidance (paragraphs B34–B37) makes it clear that members do not have any transactions with the joint operation – the PB – itself. Each member will however need to maintain a working document - a memorandum account – to record “transactions” with the PB;

- It follows that, other than on a memorandum basis, a PB cannot itself hold any balances (either with members or providers);
- Members will recognise expenditure at the point that they incur a liability to pay a provider for service delivered. The funding of the PB does not imply the recognition of expenditure by the member;
- As discussed above, it is likely that members' dealings with the PB itself will give rise to a *joint arrangement* under IFRS 11 such that the members are *joint operators*. Beyond that first stage, it is for the members to consider both the substance and form of the arrangements to commission services from end-providers;
- Accounting does not automatically follow the legal provisions contained in the s75 agreements. PB members must consider the underlying substance of commissioning transactions and agree whether or not commissioning made from the PB constitutes a *joint operation*.

Accounting: Required steps:

27. The [chart below](#) outlines the main considerations. While the PB is not an entity, at the core of the accounting is the expectation that (at least for the minimum BCF allocations) both accounting policy and the wider BCF policy default to the recognition of the member/PB relationship as a joint operation. Thus, all transactions and balances that appear in the PB memorandum account are expected to be thrown back into the members' own statutory and management accounts at the year end and at any other times necessary to establish members' in year performance and cash positions.
28. As a second step, the relationship between the joint operation and the service providers is considered. Here, the usual accounting considerations, centring on control, apply. This “two-step” approach requires members to (a) consider their own relationship with the PB, and then (b) consider relationship of the PB with the service providers. The operation of the PB may, as a matter of fact:

- involve the members ceding control of funds to a lead commissioner/principal (in which case joint control will not exist); or
- involve the retention of operational control such that the arrangement from end to end of the PB remains that of a joint operation.

One joint operator enters into contractual arrangements with contractors on behalf of all the members (lead commissioning):

29. A member that enters into a legal contract with a 3rd party provider will record, in gross terms, the entirety of its transactions with that provider, as the lead contracting entity holds the rights and obligations associated with the transaction. Other members record their share of the transactions, in line with the s75 agreement and IFRS 11, but this is expressed by bringing to account their expenditure and balances with the lead member, rather than with the 3rd party provider.

Joint contracting arrangements:

30. Were the members to enter into contractual arrangements with 3rd party providers whereby each member had a share of the obligations to the provider, each member would account for its share of transactions and balances directly with the provider.

Cash and expenditure

31. PB members will need to maintain their own memorandum accounts that show day-to-day cash funding of the PB. It is essential to note that for: statutory accounts purposes; performance monitoring; and cash reporting to HM Treasury the PB does not exist as an entity and so no balances with the PB itself can be brought to account.

32. Unspent cash may be held by one or more members in their own bank accounts. Other PB members will recognise their rights to their share of that asset by raising a receivable balance with the holder(s) of the cash – generally the PB host body.

33. Expenditure is not recognised by PB members at the point a PB is funded. Only when members recognise expenditure under normal accounting practice – i.e. an obligation has arisen - is expenditure recognised in the members' books. This is particularly important where a PB is hosted by an entity outside the DH Group. A national budgetary pressure would arise were CCG > LA lead commissioner expenditure to be recognised in advance of a NHS provider being able to recognise income. Steps must be taken

therefore to ensure that commissioners do not record expenditure unless and until the provider is entitled to recognise income.

34. Where cash is injected into a PB – probably being held in the PB’s host body’s bank account – members will record a receivable balance with the PB host to reflect their rights to that cash asset. At this point, the host has not provided services or goods, nor has incurred expenditure on behalf of the other members.
35. It follows that at the accounting date, cash held by a hosting body will give rise to a prepayment in the contributor’s accounts, and to deferred income in the host’s. Members will wish to keep such balances at a minimum.
36. HM Treasury’s prohibition of drawing down cash in advance of need remains, and is particularly relevant to the management of BCF PBs. While a PB and its host entity might, quite reasonably, wish to maintain a cash float such that the host is not compelled to use its own supplies of cash (above its s75 share) to fund BCF expenditure, the balance must be kept to the minimum required to ensure smooth operation of the Fund. S75 agreements should mandate appropriate information requirements so that the PB manager is able: to monitor contract spend; accurately profile future expenditure and cash requirements; and ensure that cash balances held in the PB are minimal (see below – specific guidance on cash management).
37. The PB members will recognise expenditure, assets and liabilities in line with standard practice. So any payment made in advance of any service being received, would give rise to a pre-payment in the lead or joint commissioner(s) account. Members would then take their share of that pre-payment into their own SOFPs. This would apply equally to lead commissioner or joint operation arrangements.
38. BCF guidance **Annex 2 – Cash Management** provides some additional guidance specifically on cash management.

Additional BCF contributions (contributions above the minimum allocation)

39. These may be outwith s75 agreements and indeed may be non-PB arrangements. This guidance does not directly address accounting for such additional flows of resource. NHS bodies should apply standard accounting treatments in compliance with the *FReM* and *GAM 2016-17* to such additional funding transactions (eg recording grants, direct

commissioning, or aligned budgeting as required).

40. In other cases, additional contributions might simply have the effect of topping-up existing baseline BCF arrangements, in which case the accounting arrangements will be identical to those adopted for the baseline BCF fund.
41. It will however remain essential for all parties to be clear about which flows of funds have been recognised under which commissioning model and which accounting policies apply to the various funding streams.

Quarterly reporting to members and providers, AoB arrangements

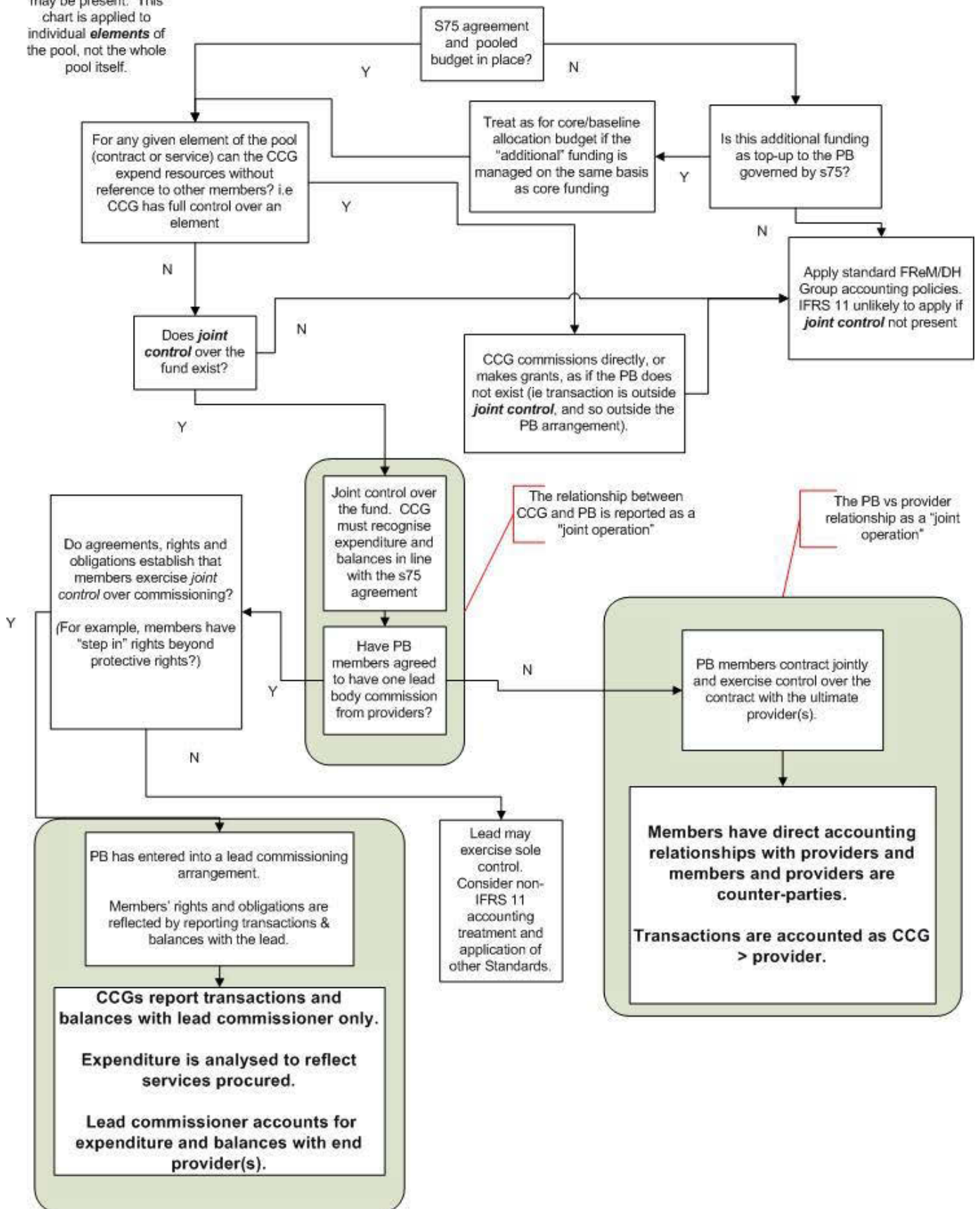
42. Under s75 and associated Regulations, the PB manager is required to submit quarterly and annual reports to the partners to cover the income to, and expenditure from, the pooled fund and other information by which the partners can monitor the effectiveness of the arrangements.
43. This minimum requirement will not be sufficient to meet the needs of NHS PB members and providers, as:
- timeframes are not specified;
 - financial reporting requirements of CCGs far exceed the headline reporting of income and expenditure; and
 - Regulations are silent on the data requirements of NHS providers, which mirror those of NHS members
44. While Regulations provide for quarterly reporting to members, in addition:
- CCGs will need to fulfil cash management requirements and so will need to have reports from host bodies on a monthly basis;
 - NHS providers will need statements from the PB host (on at least a quarterly basis, and certainly in advance of AoB exercise date and Q3 and year-end accounting deadlines) to ensure that providers can identify their correct counter parties and transactions/balances with them. Where the PB member is a lead commissioner, the information flows will be relatively straightforward: the host body will need to ensure however that joint contracting or sole control arrangements are also correctly

identified.

45. These requirements emphasise the importance of agreeing suitable reporting mechanisms between PB members and hosts.

Overview – BCF Pooled Budgets

For any single BCF pool, several elements may be present. This chart is applied to individual **elements** of the pool, not the whole pool itself.



NOTE: Lead commissioner may be the host entity, but could equally be any other PB member, or members if different elements are controlled by different members.

Annex 1 – Lead commissioning

1. It has been common practice for many years for NHS commissioners to nominate a “lead commissioner” that negotiates a single contract or group of contracts to achieve administrative and purchasing efficiencies in commissioning.
2. The s75 agreement will indicate where control lies. An operator/commissioner that enters into legal contracts with providers is likely to be considered a “lead commissioner” in the context of this guidance. Lead commissioning involves the relevant commissioners ceding of control over end-contracts to the lead body or principal.

3. A typical example might be:
CCGs A, B and C agree that C will procure certain volumes of services from providers at C’s discretion. The arrangement makes C the provider as far as A and B are concerned, as C only has a commercial relationship with the end-provider(s).

The key determinant of this type of relationship is that A and B have funded C, but have limited day-to-day control over the management and delivery of C’s end-provider contracts.

The accounting relationship then is that A and B purchase from C, and C purchases from providers X, Y and Z. There is no direct cash, accounting or contractual relationships between A and B and end providers X, Y and Z.

A and B’s expenditure with C is analysed to reflect the category of service provided.

4. A consequence of this model is that within the NHS community, income and expenditure are grossed-up. A and B have expenditure (purchase of healthcare) with C while C records the same expenditure (in addition to its own) with the providers. NHS summarised accounts, the forerunners of the consolidated Resource Accounts post- “clear line of sight” thus overstated intra-PCT income and expenditure. Consolidation eliminations now address this issue.

It is essential to distinguish between “lead commissioning” and “hosted” activity. A “host” may or may not also be a “lead commissioner”. Hosting in itself simply has the host acting as an *agent* for parties that continue to exercise control over subsequent purchasing/commissioning decisions. It will be necessary to consider what rights and powers the other operators may exercise – “step in” rights that are not merely protective would represent a degree of control over the host or lead operator.

Annex 2 – Cash Management

Better Care Fund – Cash Management Guidance

Introduction

1. The principles set out in HM Treasury’s “Managing Public Money” (see link below) apply to Better Care Fund (BCF) cash management. The full text of this guidance can be accessed via the following link;

<https://www.gov.uk/government/publications/managing-public-money>

2. The following sections of the guidance are particularly important;
 - A5.6.2 Public sector organisations should where possible hold their cash balances with the Government Banking Service (GBS). This makes it possible to sweep the contents of these accounts to high level Exchequer accounts so that at the end of each working day the Debt Management Office (DMO) can assess the government’s cash position overall.
 - A5.6.4 Good cash management means having the right amount of cash available when needed, without inefficient unused surpluses. Each public sector organisation should plan its own cash management efficiently.

Key Requirements

3. “Managing Public Money” can be applied to pooled budget arrangements to define the following key requirements;
 - CCGs operate on the Government Banking Service platform, whereas Local Authorities have separate banking arrangements. Therefore, where a Local Authority is host to a pooled budget, CCGs should not transfer cash to the Local Authority in any month which precedes the operational requirement to expend the cash with service providers. Any other payment arrangement, such as quarterly transfer, will not be appropriate.
 - Any cash transfer to a pooled budget must be on the basis of identified need in a given month. Therefore when a counterparty is transferring cash into a hosted arrangement in a given month, it is incumbent on the counterparty to ensure that

the host has provided verifiable evidence of the requirement to expend the cash with service providers in the month of transfer.

- Unexpended cash amounts in pooled budget arrangements must be kept to a working minimum. This objective should be achieved provided the monthly basis for cash transfer set out above is followed.
- Where a CCG is hosting a pooled budget the existing Government Banking Service account must be used for all BCF receipts and payments. A CCG should not use any other banking facility for BCF related transactions.

BCF Cash Forecasting/Drawdown – Guidance for CCGs

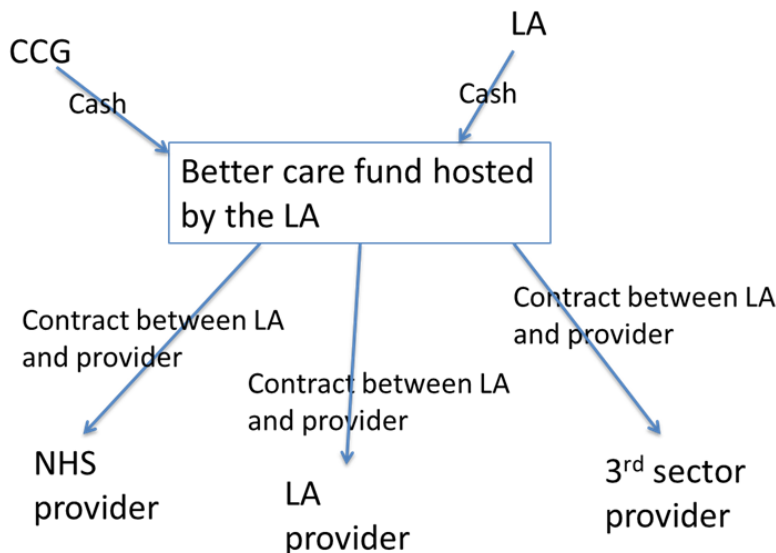
4. For 2015/16 the monthly CCG cash forecast/drawdown elements which relate to BCF will require separate disclosure on the CFF1 forms.
5. The following totals will require disclosure as part of the monthly CFF1 submission;
 - Total annual BCF cash plan with monthly phasing
 - Drawdown request for cash transfer to BCF pooled budgets hosted by Local Authorities
 - Drawdown request for payment to providers under CCG hosted BCF pooled budget
 - Drawdown request for BCF cash payments not under pooled budget arrangements
5. CCG monthly BCF annual cash drawdown requests will be reviewed centrally and via Regional teams against Revenue Resource Limits and challenged where necessary. This will help ensure that BCF drawdown requests are not in advance of monthly operational need to pay providers.

Annex 3 - Worked examples

1. The examples below are based on those provided by the HFMA as a result of discussions held with CCGs at its pre-accounts planning conferences in January 2014 and are annotated to highlight issues arising and indicate the suggested accounting approach.

Scenario 1:

2. This example arrangement was not found by the HFMA to be as typical as commentators first thought.

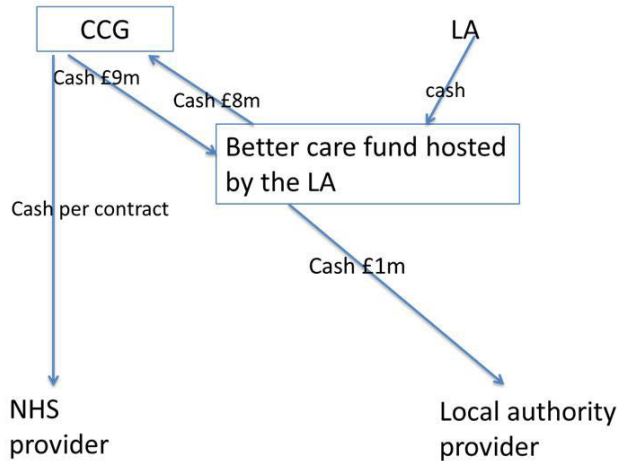


3. Here, the accounting is determined by the nature of the contracts between the LA host, and the providers. We assume that the relationship between the commissioners is that of joint operators, but the members need to agree whether the LA host acts as an agent or principal in managing the contracts with the providers, bearing in mind the considerations about the degree of *control* exercised by the members over the arrangement. Key considerations will include:
 - a. have the members agreed that each has the power to veto the engagement with any given provider? This may be fully evidenced in the s75 agreement, but this

might not always be the case.

- b. do the members jointly have the power to hold end-providers to account for delivery, cost, timeliness and quality?
 - c. are all the risks associated with any given contract borne equally (insofar as the s75 agreement determines) by the members?
 - d. have the members contracted with the LA host in terms that make the LA solely responsible for the delivery of services?
 - e. have the members agreed to delegate authority to the LA to select end-providers, and to manage the contract delivery without reference, or with minimal reference, to other members?
 - f. is the LA subject to a greater degree of risk in respect of the contract performance than the other member(s)?
4. Affirmative answers to a, b and c would tend to indicate that the LA is acting as an **agent** for the members, in which case the end-to-end (i.e. member vs provider) BCF PB accounting will follow the IFRS 11 joint operation model.
 5. Affirmative answers to d, e and f suggest that the LA is acting as a **principal**, and that members have ceded control over end-provider contracts to the LA. The arrangement in that case would be accounted for as a lead commissioner arrangement.
 6. In the example above, it is possible for some contracts to be treated as being let and managed under joint control (i.e. as being joint operations) and others being lead commissioning arrangements. Clearly, judgments need to be made, but the key point is that all the members, and each provider, must be clear on the accounting approach applicable to any given contract.

Scenario 2



7. This is the scenario raised most frequently at HFMA events. It raises the question of whether such an arrangement is or is not properly a BCF pooled budget. There may however be situations where PB members, and via a s75 agreement, agree that individual members will continue to contract with individual providers without reference to other members and using their own sources of funding alone. In substance these would neither be joint operations nor lead commissioner transactions: they would be stand-alone arrangements involving only one-to-one transactions. In this event, accounting and AoB considerations are simplified as there are only two parties to the transaction.

- Cash transferred to LA host (because that is seen as a requirement of s75 agreements).
- The (lead) CCG continues to contract with NHS providers as it has existing contracts and commissioning arrangements in place. Providers may also prefer to continue to contract with the CCG rather than develop new relationships with the LA.

8. An example given had:
- a. CCG transfers £9m cash to BCF PB hosted by LA
 - b. CCG contracts for £8m with NHS provider
 - c. CCG draws cash £8m back from LA, and passes this to NHS provider, per their contract with the provider.

- d. PB commissions £1m services from a LA (quite possibly the same LA that hosts the fund)

9. Relevant points:

- There is no requirement to physically fund the LA host in advance of the payment being made by the CCG to its provider. A “fund” can exist under s75 even if the cash funding actually remains in members’ bank accounts until required to pay providers. The pooled fund is a concept, represented by the use of a memorandum account, rather than a discrete pool of cash held in just one account.
- The evidence (that there was a pre-existing CCG > NHS provider contract that continues into 2015-16, and that the CCG and NHS provider consider themselves to be in a contractual arrangement that appears to exclude the LA as a joint commissioner) suggests that the underlying economic reality of the arrangement requires the CCG and NHS provider account for the transaction as if the PB and the LA host did not exist.
- the legal provisions of the s75 agreement are likely in this example to be overridden by the substance of the transaction, and in this case the CCG should probably not consider itself as being either a joint operator or lead commissioner, but rather as acting as a single entity.
- This case would be more clearly illustrated if the CCG, although being a full member and actively participating in a BCF PB, made grants to e.g. 3rd sector providers under its own authority and at its sole discretion. In that event too, the CCG would record its own transactions, unmodified by the activities of the PB, its host or other members.

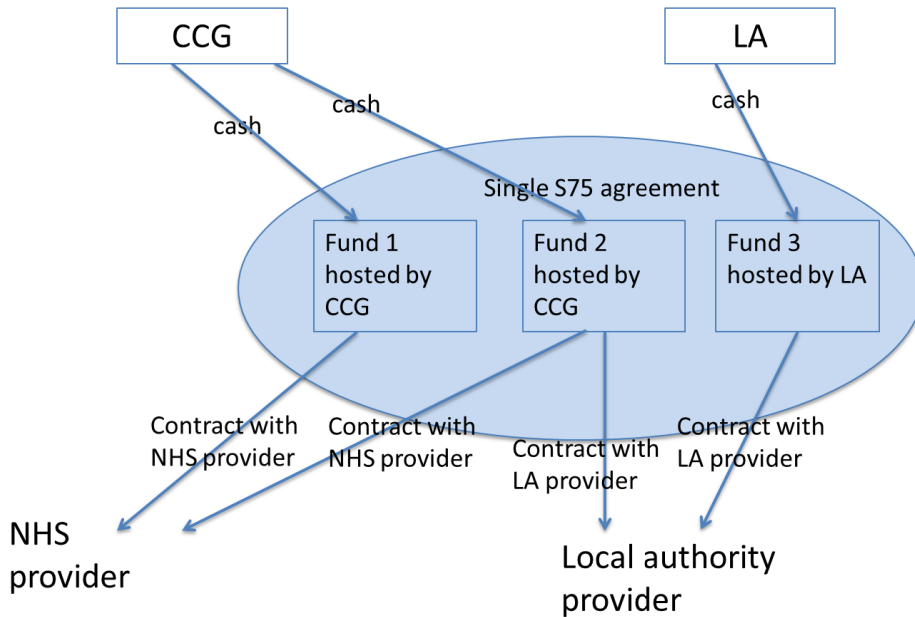
10. In this example, even were the cash to flow as indicated, the transactions for the CCG would be:

dr expenditure (purchase of health care from NHS provider) £8m
 dr expenditure (purchase of health care from LA)* £1m
 cr cash £9m

* this could be either on a joint operations or lead commissioner basis, depending on the substance of the arrangement

Scenario 3

11. This is the most complex of the scenarios described to the HFMA. There is one s75 agreement but a number of funds hosted by whichever body undertook the contracting.



12. The first requirement is to establish whether the s75 agreement gives rise to joint control and a whether a joint operation exists. If so, each participant will recognise its own share of assets, liabilities, and expenditure. The rights and obligations may differ from fund to fund. Thus:

- The CCG contracts in Fund 1 are only with NHS providers – does the LA, as a point of fact, have joint control over these arrangements? If not, might the arrangement be similar to that in Scenario 2, with the CCG accounting for its contracts with the NHS providers in PB 1 to better reflect the underlying economic reality and the absence of control exercised by the LA?
- For Fund 2, the existence of contracts with both NHS and LA provider(s) may indicate that a true joint operation is in existence, and (if the s75 agreement so provides) joint control exists. Each member would recognise its own share of

assets, liabilities, and expenditure (and any income).

- If the LA (in Fund 3) is contracting only with itself as a provider, does the CCG have any meaningful control or influence over those spending decisions? It appears to be spending only its own resources here, so the arrangement may mirror that applying to Fund 1, but here with the LA solely accounting for its own transactions.

Chapter 4 Annex 2: Pooled Budgets

(See **Chapter 4 Annex 1 – Accounting for the Better Care Fund**, for guidance with specific reference to the Better Care Fund).

1. The relevant standard is IFRS 11, *Joint Arrangements*. A pooled budget is not an entity in its own right and is likely to fall into the category “joint operation” under the Standard.
2. If the entity has an interest in a joint operation, it must recognise in the financial statements:
 - the assets the entity controls
 - the liabilities it incurs
 - the expenses it incurs, and
 - its share of the income from the pooled budget activities.
3. It is for the entity to decide whether to include in the financial statements a policy note on the subject and a note of the income and expenditure and balances of the pooled budget. There is no IFRS requirement to do so but, either way, working papers will be needed to support accounts entries that result from pooled budget activities.
4. It is important to remember that a pooled budget is simply an aggregation of balances that belong to the pooled budget partners rather than an entity in its own right. For example, if cash is injected into a pooled budget and this is used to contribute to the purchase of an asset and to buy services, with some cash held at the year end, the financial statements must include:
 - the share of the asset purchased (plus share of the depreciation and any change in value)
 - the expenditure (and payables, if relevant) on which the cash has been used
 - an appropriate share of income (and receivables, if relevant) in line with the pooled budget agreement, and
 - a receivable or payable to reflect the partner’s rights or obligations in respect of cash held by any pool member
5. An entity may purchase services available under a pooled budget of which it is a partner. The expenditure on the services will become income of the pooled budget, of which the entity will be due a share as a partner of the pooled budget. Similarly, if the entity owes money for services provided under the pooled budget, the creditor balance in its books will be a debtor balance of the pooled budget, of which it owns a share. The agreement of balances exercise will only apply to the share owned by other partners of the pooled budget.

5. Statement of Comprehensive Income/Net Expenditure (SoCI/SoCNE)

Introduction

- 5.1. IAS 1 'Presentation of Financial Statements' requires the preparation of a Statement of Comprehensive Income (SoCI). Some organisations will prepare a Statement of Comprehensive Net Expenditure (SoCNE) which follows the principles of IAS 1 as adopted by HM Treasury. For organisations preparing a SoCI the option in IAS 1 to present this information as two separate statements has been withdrawn.
- 5.2. 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).
- 5.3. This chapter addresses the significant application issues that affect the departmental group. It also outlines the additional requirements for group consolidation in general. As described in paragraph 4.3, different sectors within the departmental group may have differing reporting formats. As a consequence this financial statement may be referred to as the Statement of Comprehensive Income (SoCI) in their entity specific guidance. This chapter will consistently use SoCNE to refer to both statement formats.

Income

- 5.4. IAS 18, *Revenue*, applies, and the classification of types of income is shown in the example accounts formats. Entities that receive Parliamentary Funding (Special health Authorities and Executive Agencies) or receive Grant-in Aid (Non-Departmental Public Bodies) must separate these funding streams from general income as it is possible to receive cash from the Department in either or both categories. *FReM* (8.1.1) details those items that must be dealt with through the General Fund and not as income. A rule of thumb is that entities will recognise income where it delivers a specific service or provides goods to the Department, using usual order and invoicing systems.
- 5.5. As detailed in paragraph 4.31, the "gross" accounting principle applies to intra-NHS transactions. By default, income and expenditure are recorded separately and not netted off. For some transactions (for example, where a body acts as an agent for another), it is appropriate to account "net" with the agent excluding both income and expenditure from its books.

Income from patient care activities (Providers)

- 5.6. NHS provider income should be classified as income from patient care activities when it is earned under contracts with NHS bodies and others for the provision of patient-related healthcare services. Where a provider receives additional revenue contributions from central bodies for the delivery of healthcare services this should be recognised as revenue and disclosed in a separate row in the analysis of income from patient care activities. Income from non-patient-care services should be classified as 'other operating income'. Where a provider receives merger support funding from the Department of Health, this should be disclosed in a separate row in the analysis of other operating income.
- 5.7. "Non-NHS – other" records all income for the provision of patient care services from sources other than those detailed above, including income from Scottish, Welsh and Irish bodies.
- 5.8. Income arising from the activities of subsidiaries consolidated into the accounts of the provider trust should be classified on the same basis, regardless of how it is classified in the accounts of the subsidiary.
- 5.9. Where 'other income' is material, additional disclosure should be made in the accounts as to its source. Even where 'other income' is not material the summarisation schedules may require additional analysis, as it may include items that are material for the consolidation. Paragraph [5.51](#) describes the other forms of income that may require disclosure.

Injury costs recovery (ICR) revenue

- 5.10. ICR revenue should be accrued only when form NHS2 has been received and it has been confirmed from the NHS provider's records that injury treatment has been given. If there are discrepancies that need investigating, income should not be accrued. On average, the Compensation Recovery Unit advise that there is an 18.9% probability of not receiving the income.
- 5.11. Therefore, if it is material, 18.9% (currently) of accrued ICR revenue should be included within the provision for impairment of receivables. However, where providers are in a position to make a reliable estimate of their own provision percentage they should use their own local information to inform the provision.

Partially completed treatments spells and maternity pathway transactions

- 5.12. Where partially completed treatment spells arise, the provider and its commissioning counterparty should consider the terms of the contract that they have entered into to determine how revenue should be recognised in accordance with IAS 18, *Revenue*.
- 5.13. From the provider viewpoint, where it is certain to receive the income for a treatment or spell once the patient is admitted and treatment begins, 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.

- 5.14. Income relating to those spells which are partially completed at the financial year end should be apportioned across the financial years on a pro rata basis. This basis may be the expected or actual length of stay or may be based on the costs incurred over the length of the treatment. It is for the provider and commissioner to establish and agree a suitable pro rata basis, and where material, disclose this in the accounting policy note.
- 5.15. Guidance issued by NHS England, Monitor and the Department addresses the issue of accounting for maternity pathway commissioning in the light of a potential non-symmetrical treatment by commissioners and providers. This guidance is available [here](#)⁹.

Government grants (IAS 20) and donations

- 5.16. NHS bodies should apply IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, to the treatment of government and other grants, with the following interpretations.
- The option in IAS 20 to deduct the grant from the carrying value of the asset is not permitted
 - Grant income relating to assets is recognised within income when the entity becomes entitled to it. Where the grantor imposes conditions about the use and application of the grant or donation, the grant is recognised as deferred and carried forward to future financial years to the extent that the condition has not yet been met.
- 5.17. 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 entity ceases to use the asset purchased with that grant for a purpose specified by the grantor. In these cases, a return obligation does not arise until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such a condition would not therefore require the grant to be treated as deferred.
- 5.18. Departmental group bodies should account for donations by applying the same principles as for government grants above. Where an NHS provider consolidates NHS charitable funds, donations received from those funds will be eliminated on consolidation in the local group accounts.
- 5.19. Where a group body 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,

⁹ https://whitehall-admin.production.alpha.gov.co.uk/government/uploads/system/uploads/attachment_data/file/295218/Maternity_pathways_accounting_140314.pdf

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

5.20. Credits arising from receipt of grants and donations are taken to the SoCNE.

Profits and losses on disposal of non-current assets

5.21. 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”, see paragraph 5.46 for definition of continuing/discontinued operations.

Overseas visitors

5.22. Providers should disclose the following in the notes to the accounts, relating to treatment of overseas visitors:

- income from overseas visitors (where the patient is charged directly by the provider)
- 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).

5.23. The provider has discretion where these numbers are disclosed within the notes to the accounts.

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

5.25. Further guidance on identifying when income should be recorded as being from overseas visitors can be found [here](#) in the Department of Health issued *Guidance on implementing the overseas charging regulations 2015*.

Operating expenses

Analysis of operating expenses

- 5.26. 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. For consistency across the group, this analysis should 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.
- 5.27. Consideration should also be given to the analysis required for the summarisation schedules. In some cases, it will be necessary to report non-material items in the summarisation schedules as they may be material in aggregate upon sector/group consolidation. 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 5.55. The analysis of operating expenditure must also include a separate row recording internal audit expenditure, relating to expenditure on internal audit services provided in-house or by a third party, including local counter fraud services.
- 5.28. The analysis of operating expenses should also include expenditure on consultancy. Chapter 5 Annex 1 of the *GAM* provides a definition of 'consultancy' expenditure.

Employee benefits expense

- 5.29. 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

- 5.30. Retirement benefits should be accounted for in accordance with IAS 19 (Revised 2011). Table 6.2: IAS 19 of the *FReM* requires the NHS Pension Scheme to be accounted for as a defined contribution scheme. Departmental group bodies paying in to this scheme should therefore recognise an expense equal to their employer contribution to the scheme during the year.
- 5.31. Where group bodies 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.
- 5.32. Where defined benefit schemes have a minimum funding requirement, this may affect the amount of any net asset which the group body can recognise when the scheme is in surplus. IFRIC 14 provides guidance on any adjustments required to the asset in these circumstances.

Termination benefits

- 5.33. 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.
- 5.34. Termination benefits are recognised at the earlier of:
- a) when the entity can no longer withdraw the offer of those benefits and
 - b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

PDC dividends payable (Providers)

- 5.35. The disclosure of PDC dividends payable on the face of the Statement of Comprehensive Income is the total of PDC dividends payable by the trust in respect of the financial year.
- 5.36. The Secretary of State requires that 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 NHS Improvement/Department of Health. 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.
- 5.37. 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: Outstanding accrued PDC Dividend income	(X)
Plus: Outstanding accrued PDC Dividend expenditure	<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.

- 5.38. 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.

5.39. 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

Analysis of income and expenditure: programme and administration

5.40. The FReM no longer requires separate disclosure of administration and programme income and expenditure in the financial statements. However, the department is still required to report administration outturn as part of the parliamentary accountability report. There therefore remains a requirement to collect separate programme and (where relevant) administration income and expenditure details within the accounts summarisation schedules. Entities should ensure these figures are consistent with their published accounts.

5.41. For some entities, e.g. providers, income and expenditure is deemed to be wholly programme, and no further analysis is required from those bodies.

Notes to the SoCNE

Operating segments

5.42. The relevant standard is IFRS 8, *Operating Segments*. An operating segment is a component of an entity:

- that engages in activities from which it may receive income and incur expenses (including income and expenses generated internally)
- whose operating results are regularly reviewed by the entity's "chief operating decision maker" (CODM) to make decisions about resource allocation to the segment and assess its performance, and
- for which discrete financial information is available.

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

5.44. Segmental transactions should 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. Key adjustments may include 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.

5.45. Group bodies may not be allocating income to individual activities for the purpose of internal reporting, choosing instead to report expenditure by activity and reporting income only for the entity as a whole. Where this occurs, and income is not allocated consistently to individual activities when reporting to the CODM, the entity should determine which segments are reportable by reference to the operating expenses of the segment and the total operating expenses of the entity.

Discontinued operations

5.46. Departmental group bodies 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.

- 5.47. 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 accordingly.
- 5.48. 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.

Income generation activities

- 5.49. There is no relevant accounting standard: this note is a Treasury requirement.
- 5.50. In addition to reporting operating segments under IFRS, Treasury's *FReM* requires bodies to provide additional disclosures for fees and charges raised under legislation, where the full cost exceeds £1 million or the service is otherwise material in relation to the accounts. This includes NHS income generation activities. Where the additional disclosures are shown separately in the "Operating Segments" Note, they do not need to be repeated. Where an entity is required to include a parliamentary accountability and audit report (paragraph 2.50), there is no requirement to duplicate the fees and charges disclosure as a separate note to the accounts. (NHS foundation trusts should refer to the *ARM 2016-17* for the annual reporting requirements.)

Income

- 5.51. The main relevant standard is IAS 18, Revenue. Departmental group bodies will have differing disclosure requirements for income, based on materiality and sector specific transaction – see paragraphs 4.4 - 4.10.
- 5.52. NHS providers should also refer to paragraphs 5.6-5.11 for the treatment of revenue from patient care activities.
- 5.53. Group bodies are reminded of the default gross accounting position, as described in paragraphs 4.31 and 5.5.

Operating expenses

- 5.54. The relevant standards are IAS 1, Presentation of Financial Statements, paragraph 99 and IFRS 7, Financial Instruments: Disclosures, paragraph 20(e). Departmental group bodies will have differing disclosure requirements for expenditure, based on materiality and sector specific transaction – see paragraphs 4.4 - 4.10.

Audit fees

- 5.55. 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 (other auditors remuneration) are analysed across the following headings:

- a) the auditing of accounts of any associate of the trust
- b) audit-related assurance services
- c) taxation compliance services
- d) all taxation advisory service not falling within item 3 above
- e) internal audit services
- f) all assurance services not falling within items a) to e)
- g) corporate finance transaction services not falling within items a) to f) above and
- h) all other non-audit services not falling within items b) to g) above.

5.56. Prior year comparatives should be analysed on an equivalent basis.

5.57. Where local auditors undertake additional statutory activities under the Code of Practice that are not related to the audit of the financial statements (e.g. value for money work), these costs should be classified as “audit services” rather than “other auditor remuneration”. The disclosure of such costs should also set out the basis for such work and its nature and extent. Where the auditor provides assurance on a provider’s quality account or quality report this work is not performed under the Code of Audit Practice and should be disclosed as ‘other services: audit-related assurance services’.

Auditor liability limitation agreements

5.58. In accordance with the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI 489/2008), where a departmental group body’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.

Employee benefits

5.59. This note is a requirement of the Companies Act 2006, section 411. IAS 19, *Employee benefits*, is relevant. As described in the previous sections on income and operating expenditure, different local requirements may necessitate completion of the summarisation schedules in a way which is most appropriate in that sector. The sector specific guidance on completion of the summarisation schedules and example accounts formats (where appropriate) should be reviewed.

5.60. Employee benefits comprise of ‘permanently employed’ staff and ‘other’ staff. In this context:

- ‘Permanently employed’ refers to members of staff with a permanent (UK) employment contract directly with the entity;

- 'Other' refers to any staff engaged on the objectives of the entity that does not have a permanent (UK) employment contract with the entity. This includes employees on short term contracts of employment, agency/temporary staff, locally engaged staff overseas, and inward secondments from other entities where the whole or majority of the employees costs are met locally. NHS foundation trusts should include a row disclosing expenditure on agency/contract staff where this is material.

- 5.61. In addition, the core department is expected to provide a further breakdown of benefits incurred under two additional categories (ministers and special advisors). It is not anticipated that the rest of the departmental group would have costs within these categories, however if there are any doubts then the entity should discuss this with their sector finance leads.
- 5.62. The figures should exclude non-executive directors/ lay Governing Body Members but include executive board members/Governing Body Members and staff recharged by other NHS bodies.

Ill-health retirements

- 5.63. NHS bodies 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.

Pension costs

- 5.64. The relevant standard is IAS 19, Employee Benefits. Entities with employees that are members of either the NHS Pensions Scheme or the Principal Civil Service Pension Scheme unfunded, defined contribution pension schemes should apply the FReM adaptation to IAS 19.
- 5.65. Disclosure note requirements are provided each year by NHS BSA (NHS Pensions Scheme), and by Cabinet Office (Principal Civil Service Pension Scheme). NHS Pension Scheme requirements will be published by the sector finance leads. Requirements for entities with employees in the Principal Civil Service Pension Scheme are included in the relevant illustrative accounts published by HM Treasury, with changes being published on <http://www.civilservicepensionscheme.org.uk/employers/employer-pension-notices/> as Employers Pensions Notices (EPN).
- 5.66. Entities with employees who are members of other pensions schemes (e.g. local government pensions schemes), should refer to FReM paragraph 9.1.1 in the first instance to determine whether the scheme is a public sector pension scheme under which the IAS 19 adaptation applies. Otherwise, they will need to assess how the scheme operates to determine the correct accounting and disclosure requirements

Investment revenue

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

5.68. Departmental group bodies will have differing disclosure requirements for income, based on materiality and sector specific transaction – see paragraphs 4.4 - 4.10.

Other gains and losses

5.69. The relevant standards are IAS 1, *Presentation of Financial Statements*, paragraph 98(c) and (d), and IFRS 7, *Financial Instruments: Disclosures*, paragraph 20. Further guidance on financial instruments is provided in Chapter 6 Annex 1: Financial Instruments.

Income from activities arising from commissioner requested services (NHS foundation trusts)

5.70. As part of the income disclosures, NHS foundation trusts should also disclose 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 NHS Improvement'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. Where an NHS foundation trust has been placed in Trust Special Administration, substitute 'commissioner requested' with 'location specific'.

Profit or loss on disposal of property, plant and equipment (NHS foundation trusts)

5.71. 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.

Directors' remuneration and other benefits (NHS foundation trusts)

5.72. The requirements under section 412 to disclose information on directors' remuneration are considered to be satisfied by the disclosures made in the notes to the accounts and in the Remuneration Report.

5.73. The requirements for disclosing directors' other benefits, where relevant, 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.
 - 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.
- 5.74. 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.

Chapter 5 Annex 1: Consultancy

1. 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.

6. Statement of Financial Position (SoFP)

Format of the SoFP

- 6.1. IAS 1, *Presentation of Financial Statements*, refers. The content and format of the SoFP is set out in the example format (see paragraph 4.2).
- 6.2. Assets and liabilities must be analysed as “current” and “non-current” on the face of the SoFP.
- 6.3. IAS 1 adds that “the operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents” and that “when the entity’s normal operating cycle is not clearly identifiable, it is assumed to be twelve months”. The standard requires that where an asset or liability line in the statement of financial position combines amounts that fall due within and beyond one year, the split must be disclosed in the notes.

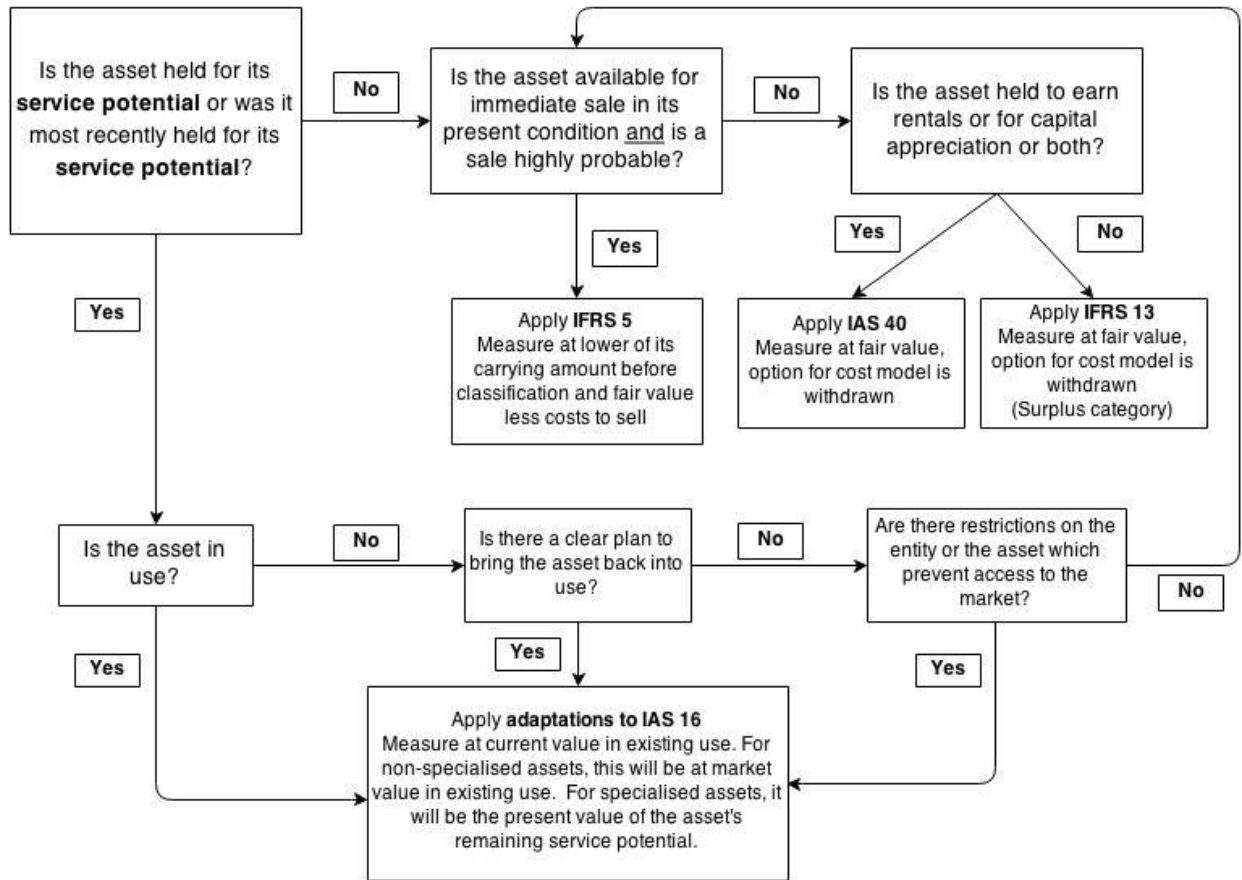
Taxpayers Equity and Other Reserves

- 6.4. The net total of assets and liabilities should equal the total taxpayers equity (plus charitable funds where relevant) used to finance the entity (see paragraph 7.1 Statement of Changes in Taxpayers Equity (SoCTE)). The SoFP should show how the net total of assets and liabilities is financed through the entities reserves.
- 6.5. The SoFP/SoCTE may include one or more of the following reserves:
 - General fund/reserve (not NHS providers)
 - Income and Expenditure/Retained Earnings reserve (NHS providers)
 - PDC reserve (NHS providers only)
 - Revaluation reserve
 - Merger reserve (in rare cases for legacy transactions)
 - Available for sale investment reserve
 - Other reserves
 - Charitable fund reserves (where charitable funds are consolidated)
- 6.6. Additionally, 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

Property, plant and equipment

- 6.7. The main relevant standards are IAS 16, *Property, Plant and Equipment*, and IFRS 5, *Non-current assets held for sale and discontinued operations*. NHS bodies are required to follow the revaluation model. *FReM* guidance (Table 6.2) and the associated guidance on the Treasury website refers. **Chapter 6 Annex 3 - Valuation Issues** discusses revaluation issues in the NHS context.
- 6.8. IFRS 13 Fair Value is adopted in full in the public sector; however, IAS 16 and IAS 38 have been adapted and interpreted for the public sector context to limit the circumstances in which a valuation is prepared under IFRS 13.
- 6.9. 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.
- 6.10. For non-specialised assets current value in existing use should be interpreted as market value in existing use which is defined in the RICS Red Book as Existing Use Value (EUV). However, where non-property assets are short-lived, or are of low value (or both) it is acceptable for such assets to be carried at depreciated historic cost as this will be a reasonable proxy for current value in existing use.
- 6.11. 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. The methodology used will be depreciated replacement cost on a modern equivalent asset basis.
- 6.12. 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.
- 6.13. 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.
- 6.14. 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.
- 6.15. 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 IFRS13.



6.16. In summary:

Asset	Treatment	Additional Note
Asset held for its service potential: in use	Current value in existing use (For non-specialised assets this means Existing Use Value (EUV)) (For specialised assets this usually means depreciated replacement cost on a modern equivalent asset basis.)	

Asset most recently held for its service potential: surplus but restrictions on its sale	Current value in existing use	
Asset most recently held for its service potential: surplus and no restrictions on its sale	Fair value (Highest and best use (IFRS 13))	
Assets not held for their service potential: Investment property	Fair value (highest and best use (IAS 40 and IFRS13))	
Assets not held for their service potential: Held for Sale	Lower of carrying amount and fair value less costs to sell (IFRS 5)	Carrying amount in this instance should be treated as the amount at which it was most recently held in use.
Assets not held for their service potential: Surplus	Fair value (highest and best use (IFRS 13))	

- 6.17. Reclassification of an asset between the above categories should reflect a clear decision to change the basis on which the asset is held – for instance a decision to actively market an asset for sale in accordance with the criteria set out in IFRS 5, or to take an asset out of use and treat it as surplus. It is not necessary to reflect theoretical intermediate stages, for instance to consider an asset to become surplus between being in use and being sold if there is no appreciable time gap. There is therefore no requirement to revalue an asset immediately prior to sale or immediately prior to reclassification to Non-current Assets Held for Sale.
- 6.18. Departmental group bodies must ensure consistency across disclosure notes when reclassifying assets, with the carrying amount of the asset transferring from PP&E to Assets Held for Sale being reflected in both disclosures. Similarly, where common reclassifications occur within the PP&E note (for example, from assets under construction to operational buildings) the total of reclassifications across all asset types should be zero.
- 6.19. Where the entity wishes to sell an asset which does not meet the IFRS 5 criteria for an asset held for sale, the sale should be recorded against the PP&E note. If disposing

directly from the PP&E note, the carrying amount of the asset on disposal will be the amount at which it was most recently held whilst in use, and sale proceeds differing from this amount will be recognised as a profit/loss on disposal.

- 6.20. The example accounts format provides the categorisation of PP&E into the required headings. As a minimum, departmental group bodies 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
- 6.21. Specific guidance on accounting for asset transfers that form part of “machinery of government” transfers or “transfers of functions” can be found from paragraph 4.69. Where non-current assets are transferred outside a transfer of functions or machinery of Government change, the transfer value should be at fair value in line with IFRS 3 (any revaluation to be carried out in the transferor’s accounts). For such transfers, the Department permits transacting NHS bodies to sell and purchase assets provided that: (a) the parties record mirror sale/purchase transactions; and (b), the transaction does not involve the issue or repayment of DH funding (ie for NHS Trusts and FTs, PDC is not issued or repaid in connection with the transaction).
- 6.22. Charges on properties will result in the property being included in this note if the conditions of IFRIC 12 (as adapted by the *FReM*) or IFRIC 4 apply. See the guidance ‘Accounting under IFRS for properties where a body holds a legal charge’ on the Download/IFRS section of the Finman website.

Cost & Valuation

- 6.23. Points to note for the cost or valuation section of the table:
- **Cumulative depreciation:** Cost and cumulative depreciation balances must be carried forward, without adjustment, from year to year, hence:
 - Adjustments to cumulative depreciation balances are made in-year (at the date of revaluation);
 - On formal revaluation (as opposed to indexation), cumulative depreciation is “zeroed” as an in-year movement. A corresponding adjustment to the “cost” lines ensures that the “zeroing” arrangement does not itself distort net book values. Adjustments are made to each of the “revaluation” lines to effect the “zeroing”.

Example requirements on revaluation of PP&E

Prior to revaluation:	£000
PP&E asset at cost/valuation	1,000
Accumulated depreciation	<u>(400)</u>
Net book value	<u>600</u>

Asset is revalued to £1.5m. After revaluation:

Cost/valuation

PP&E asset at cost/revaluation	1,000
Gain on revaluation	<u>500</u>
PP&E asset at revalued amount	<u>1,500</u>

Accumulated depreciation

Carry forward balance	(400)
Gain on revaluation	<u>400</u>
Depreciation after revaluation	<u>Nil</u>

Net book amount after revaluation **1,500**

Amount carried to the revaluation reserve **900**

Note: A revalued asset may attract further depreciation charges after “zeroing” 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.

- **Revaluation gains and impairment losses.** NHS bodies are required to ensure that assets are carried at a valuation using a suitable method selected by them. Where indices are used, these should be widely recognised and in common use. The source of the index should be disclosed in the narrative to the note in the accounts. The revaluations line should only be used for upward revaluations, and even so, only when the upward revaluation is not the reversal of an impairment, such that:
 - 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 this case it should be credited initially to operating income and thereafter to the revaluation reserve.

- Where a revaluation (or impairment) 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. See paragraph 6.43 for further details on the treatment of impairments. Negative revaluation reserve balances for individual assets are not permitted
- Reversals of impairments should bring the asset back to the value it was held at prior to impairment, and reverse earlier impairments taken to reserves. Subsequent increase in asset value should be treated as a revaluation (an asset should not be "positively" impaired). See paragraph 6.43 for further details on the treatment of impairments.

Depreciation

- 6.24. Depreciation charged on asset categories should be disclosed separately from the cost/valuation of the asset. The opening balance as at 1 April XX should equal the total depreciation carried forwards from the previous year. Accumulated depreciation would only be carried forward for land, buildings and dwellings revalued in the previous year insofar as depreciation has been charged in periods following the revaluation.
- 6.25. Movements in depreciation other than that charged due to the reduction in the useful life of the asset should be separately disclosed (such as through impairment or revaluation, reclassifications etc.). The example accounts formats will provide details of relevant lines.

Capitalisation threshold of non-current assets – de minimis limits

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

Grouped assets

- 6.27. "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.

IT assets

- 6.28. 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

- 6.29. Assets which are capital in nature, but which are individually valued at less than £5,000 but more than £250, may be capitalised as collective, or “grouped”, assets where they are acquired as part of the initial setting-up of a new building. The enhancement or refurbishment of a ward or unit should be treated in the same way as “new build”, provided that the work would be considered as “subsequent expenditure” in IAS16 terms.

Additional Disclosure requirements

- 6.30. It is not necessary to disclose the historical cost carrying amounts required by paragraph 77(e) of IAS 16.
- 6.31. 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.
- 6.32. 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.

Heritage assets

- 6.33. 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.
- 6.34. It is not expected that departmental group bodies will hold such assets as this definition excludes assets which are held for operational purposes. Where an entity does hold a heritage asset then FRS 102 must be followed.

Intangible Non-Current assets

- 6.35. The main relevant standards are IAS 38, *Intangible Assets*, and SIC 32, *Intangible Assets – Web Site Costs*.
- 6.36. Guidance under “Property Plant and Equipment” is generally applicable. The same points as for property plant and equipment, apply in respect of donated assets; disposals; reclassifications; reclassified as held for sale; impairments and reversals of impairments.
- 6.37. Where there is an active market, intangible assets must be carried at a market value. In all other respects, the guidance above, for “Property Plant and Equipment”, applies.

Carbon Reduction Commitment (CRC) Energy Efficiency Scheme allowances

- 6.38. CRC and EU Emissions Trading Scheme allowances should be included here (under “licences”) if they are not expected to be realised within twelve months of the end of the reporting period.

- 6.39. CRC allowances held for use 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.
- 6.40. 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.
- 6.41. Where there is evidence of an active secondary market for CRC allowances, they should be measured subsequently at fair value..

Economic Lives of Non-Current Assets

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

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

- 6.43. 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

- 6.44. 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).
- 6.45. However, to ensure that the 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:
- the amount of the impairment loss charged to expenses; or
 - the balance on the revaluation reserve in respect of the asset.
- 6.46. 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.

- 6.47. 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.
- 6.48. 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.
- 6.49. 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

- 6.50. 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.
- 6.51. 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)

- 6.52. 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 departmental group bodies.
- 6.53. 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 group bodies should not capitalise

borrowing costs for initial recognition and thus instead all borrowing costs should be recognised as operating expenses.

Other Finance and Borrowing Costs

- 6.54. Interest on loans includes interest payable on loans received under the capital loans and deposits scheme.
- 6.55. Guidance for “interest on obligations under PFI contracts” is available in the document “Accounting for PFI under IFRS”, which is available on the download/IFRS section of the “finman” website.

Leased Assets

- 6.56. The relevant standards are IAS 17, *Leases*, SIC 15, *Operating Leases – Incentives*, SIC 27, *Evaluation the Substance of Transactions Involving the Legal Form of a Lease*, IFRIC4, *Determining whether an Arrangement contains a Lease*.
- 6.57. 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.
- 6.58. 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.
- 6.59. 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.
- 6.60. A contingent rent is the portion of a lease payment that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time, such as, percentage of future sales or future price indices.

Investment property (IAS 40)

- 6.61. 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.

- 6.62. 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.
- 6.63. While few departmental group bodies may have investment properties, they may be found in subsidiaries and can often be held by NHS charitable funds. Thus if, and when, charitable funds are consolidated into the accounts, the investment properties will need to be accounted for in accordance with IAS 40 in the consolidated accounts.
- 6.64. 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.

Non-current assets held for sale

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

Financial Instruments

- 6.66. The relevant standards are IAS 32, *Financial Instruments: Presentation*, IAS 39, *Financial Instruments: Recognition and Measurement*, IFRS 7, *Financial Instruments: Disclosures* and, IFRIC 9, *Reassessment of Embedded Derivatives*. 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.
- 6.67. The disclosures in this note apply to all the entity’s financial instruments except:
- interests in subsidiaries, associates and joint ventures where they are consolidated, partially consolidated or equity-accounted, and
 - employers’ rights and obligations under employee benefit plans.
- 6.68. They therefore apply to financial instruments whose accounting is unchanged by the financial instrument standards, such as current payables and receivables, and financial instruments that are measured under other standards, such as provisions arising under contracts, finance leases and PFI liabilities. See **Chapter 6 Annex 1: Financial Instruments** paragraph **7** or the full list of financial instruments.
- 6.69. Guidance on financial instruments is given in **Chapter 6 Annex 1: Financial Instruments**. The following should be noted:

- Financial assets carried at fair value through profit or loss includes embedded derivatives
- The relevant standard applying to other financial liabilities is IFRS 7.

Inventories

- 6.70. The relevant standard is IAS 2, *Inventories*. The example accounts provide the headings thought to be most relevant to NHS bodies. Where other categories of material amounts of inventory are held the accounts, the format should be expanded to include these.
- 6.71. Work-in-progress is the value of items in the process of manufacture. It does not include partially completed episodes of healthcare.

Trade and other receivables

- 6.72. The relevant standards are IAS 1, *Presentation of Financial Statements*, paragraph 78(b) and IFRS 7, *Financial Instruments Disclosures*, paragraph 36. Receivables from Scottish, Welsh and Irish health bodies should be treated as non-NHS.
- 6.73. Prepayments and accrued income includes PFI lifecycle items received later than planned. Guidance is given in the document "Accounting for PFI under IFRS", which is on the download/IFRS section of the finman website.

Receivables past their due date but not impaired

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

Provision for impairment of receivables

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

Other current assets

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

Cash and cash equivalents

- 6.77. The relevant standard is IAS 7, *Statement of Cash Flows*.
- 6.78. The definition of cash and cash equivalents may be different between the Statement of Financial Position and the Statement of Cash Flows due to the treatment of bank overdrafts. Where overdrafts are used as part of day-to-day cash management, then they may be included within cash and cash equivalents in the Statement of Cash Flows. However, for the Statement of Financial Position, bank overdrafts are included under "borrowings". This note reconciles the two.

- 6.79. Bank balances held with the Government Banking Service should not be treated as a bank balance with a commercial bank despite the contracts in place with commercial banks. Only balances held in accounts outside this contracted arrangement should be considered as being held in a commercial bank account.
- 6.80. Cash equivalents include liquid investments as defined under IAS 7. Group bodies should review the nature of such deposits, such as items held with the National Loan Fund at the year end, and timing of the return of the investments to ensure the deposits are correctly allocated between cash equivalents and other short term loans (current assets).

Provisions

- 6.81. The relevant standard is IAS 37, Provisions, Contingent Liabilities and Contingent Assets. IAS 19, Employee benefits, is also relevant. For presentation purposes in the Statement of Financial Position, all provisions need to be separated into current and non-current amounts.
- 6.82. There is no need to provide a disclosure of the movements in provisions in the prior year because IAS37 (paragraph 84) provides an exemption from the general IAS 1 requirement for comparative information.
- 6.83. Treasury requires the expected timing of cash flows to be stated in relation to the remainder of the current Spending Review period then five yearly periods rather than the time bands required by IAS 37. The relevant periods are given in the example accounts. In addition, the timing of expected cashflows determines the current & non-current split required for the accounts.
- 6.84. Where the time value of money is material, future cashflows are discounted. Treasury issues guidance on appropriate discount rates, and this is summarised below at **Chapter 6 Annex 2 - Treasury Discount Rates**.

Clinical negligence claims

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

Early retirement costs

- 6.86. 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.

6.87. 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

6.88. 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.

Carbon Reduction Commitment Energy Efficiency Scheme (CRC)

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

6.90. The scheme is operated by the Environment Agency. Full details of the CRC Scheme are available at the Agency's website: <http://www.environment-agency.gov.uk/crc>.

6.91. For recognition of the intangible assets associated with the CRC provisions, see paragraph **6.38**

6.92. The carrying amount of the liability at 31 March 2017 will, therefore, reflect the CO₂ emissions that have been made during 2016-17.

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

Trade and other payables

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

Other liabilities

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

Defined Benefit Pension Schemes

6.96. The relevant standard is IAS19, *Employee Benefits*. The *FReM* requires NHS bodies to account for the NHS Pension Scheme as a defined contribution scheme and so they will generally recognise an expense each year equal to their total employer contribution. As the scheme is designed in such a way as the departmental group body cannot identify its total share of assets or liabilities in the scheme, there is no requirement to recognise them in the accounts.

6.97. Where an NHS bodies has staff who are members of a defined benefit pension scheme (for example, Local Government Pension Schemes), and where their assets and liabilities in the scheme can be separately identified, these should be disclosed as described in IAS 19.

Chapter 6 Annex 1: Financial Instruments

Introduction

1. The relevant standards are:
 - IAS32 *Financial Instruments: Presentation*
 - IAS39 *Financial Instruments: Recognition and Measurement*
 - IFRS7 *Financial Instruments: Disclosures*
 - IFRIC9 *Reassessment of Embedded Derivatives*
2. The standards are complex and this guidance provides only a basic overview of the issues that may affect NHS bodies.
3. All departmental group bodies have financial instruments so should ensure that the requirements of the requirements in the standards understood and applied to in the correct way, depending on the length and complexity of the financial instrument..

Financial instruments

4. IAS 32 defines a financial instrument as “a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity”.
5. The definitions for financial assets and liabilities are complex. From DH/NHS bodies’ perspective: financial assets will be:
 - Cash
 - An equity instrument (e.g. shareholding) of another entity, or
 - A contractual right to receive cash or another financial asset (or to exchange financial assets/liabilities with conditions favourable to the entity)
 and financial liabilities will be:
 - a contractual obligation to pay cash or another financial asset (or to exchange financial assets/liabilities with conditions unfavourable to the entity).
6. Some examples of what are and what are not financial instruments will help understanding. Firstly, other than for cash, there has to be a contract.
7. The following are not financial instruments because they arise under legislation rather than under contract:
 - Public Dividend Capital
 - European Union Emissions Trading Scheme allowances
 - Early retirement liabilities (with the NHS Business Services Authority)
 - Injury benefit liabilities (with the NHS Business Services Authority)
 - Receivables under the injury cost recovery scheme.

The following are, or could be, financial instruments:

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

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

8. The accounting for some financial instruments is already covered by specific financial reporting standards:
 - Provisions (IAS 37)
 - Leases (IAS 17)
 - PFI (Mirror of IFRIC 12)
 - Interests in subsidiaries, associates and joint ventures (IAS 10, 11 and 12)
9. This leaves cash, other receivables and payables, loans, and other investments to be accounted for under the financial instrument standards. The standards require financial instruments to be recognised initially at fair value. In many instances the transaction value is fair value and so the accounting will not change. This is the case for cash, short-term receivables, short-term payables, and loans and investments that carry a market rate of interest.
10. Most instruments will be accounted for at amortised cost at their book value. The financial instrument standards mean that greater consideration may be required of:
 - Long-term receivables and payables that are financial instruments. They are likely to require discounting to reflect fair value
 - Any loans that are not at a market rate of interest. Their value would need to be adjusted to reflect fair value
 - Any investments that are not at a market rate of interest, that are not interests in subsidiaries, associates or joint ventures Their value would need to be adjusted to reflect fair value
 - Derivatives and embedded derivatives
 - Any financial guarantees

- Any hedge instruments.

Derivatives

11. A derivative is a financial instrument that derives its value from an underlying variable. For a financial instrument to be a derivative it must have all three of the following characteristics:
- The value changes in response to a change in a specified variable e.g. interest rate, foreign exchange rate, prices index, credit rating, commodity price and so on
 - Requires no or little initial investment, and
 - Is settled at a future date

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

12. Embedded derivatives are derivatives that form part of another contract and cannot be transferred independently, as defined in IAS 39. A critical indicator of an embedded derivative is variation of cash flows over the life of a contract. Embedded derivatives can arise inadvertently through market practices or common contracting arrangements. An example is given at the end of this section.
13. Examples of host contracts that could have embedded derivatives are:
- Purchase and sale agreements
 - Debt instruments
 - Leases (operating and finance)
 - PFI contracts

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

- Pricing based on a formula
 - Right to purchase/sell additional units
 - Indexed to/adjusted by
 - Limits
 - Rights to cancel/extend/repurchase
14. However, an embedded derivative is only accounted for separately from the host contract if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract i.e. the economic characteristics or risks of the embedded derivative differ from those of the host contract.
15. For instance, if a loan with an RPI-linked component is given by DH to a PFI consortium, the index-linked element does not need to be accounted for separately. This is because the index relates to inflation in the entity's own economic environment: it is closely related

because all parties are UK-based and all the materials and workforce are being paid for in Sterling.

16. However, a lease for a photocopier where part of the price of the contract varies with the price of paper is an example of an embedded derivative that is not closely related. The cost of paper does not have the same economic characteristics or risks of the lease of the machine. In this case, the embedded derivative would be accounted for separately from the lease.
17. Care must be taken in this assessment since, for example, if the effect on the fair value or cash flows is magnified e.g. twice the rate of RPI, this may be sufficient to remove the close relationship. IAS 39 does not define the term “closely related” but a series of examples is contained in the Application Guidance of the standard.
18. If an embedded derivative is closely related to the host contract, the embedded derivative can be ignored and the contract accounted for in accordance with the relevant standard. If an embedded derivative is not closely related to the host contract and the value of the embedded derivative cannot be determined, the whole contract must be accounted for “at fair value through profit and loss”, that is, changes in fair value of the whole contract go through the operating cost statement or income and expenditure account.
19. Unless clearly immaterial, DH/NHS bodies will need to review new contracts to identify any embedded derivatives that are not closely related to the host contracts, so that they can be accounted for separately from the host contracts, with changes in fair value taken through the operating cost statement or income and expenditure account (unless the derivative is used for hedging).

Financial guarantees

20. Public sector organisations may take on liabilities by issuing specific guarantees (usually for loans) and writing letters of comfort.
21. Under IAS 39, a financial guarantee is “a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.” These contracts can take various legal forms, including a guarantee, some types of letters of credit, letters of comfort or a credit insurance contract.
22. Indemnities, for example for activities of board members, do not meet the above definition for financial guarantees. Instead, they should be treated as contingent liabilities under IAS 37.
23. Example: DH guarantees a private sector loan to an NHS body, to secure a beneficial rate of interest. The fair value of the guarantee is the present value of the interest saving (i.e. the difference between the interest charged and what would have been charged without the guarantee) over the life of the loan. DH would account for this as:

Dr: Investment in NHS body

Cr: Guarantee liability

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

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

Hedge instruments

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

Recognition and de-recognition

25. Financial assets and liabilities are recognised when the body becomes a party to the contract or, in the case of trade receivables/payables, when the goods have been delivered.
26. Financial assets should be derecognised when:
- the contractual rights to the cash flows of the financial asset have expired, or
 - the financial asset has been transferred (e.g. sold) and the risks and rewards of ownership have transferred.

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

Measurement and classification

27. Initially, all financial instruments must be measured at fair value. Fair value is a quoted market price, if available. If there is no market price, a valuation technique should be used, for example the value of a recent similar transaction at arms length or discounted cash flows from the transaction. If discounted cash flows are used, the discount rate to use is the higher of the rate intrinsic to the financial instrument and the real discount rate set by Treasury. Exceptionally, if no reliable estimate of fair value can be made, cost can be used.
28. Subsequent measurement is different for different categories of financial Instruments. The categories in the tables, below, are defined in IAS 39.

Financial assets	Examples	Subsequent Measurement
Financial assets carried at 'fair value through profit and loss'	Derivatives (other than if a financial guarantee or a hedge instrument)	Fair value with movements through SOCI/SoCNE A/c

Held to maturity investments	These are rare in practice. They are long term investments unlikely to be held by DH and NHS bodies	*Amortised cost
Loans and receivables		*Amortised cost (except loans by DH to bodies outside the departmental boundary. Treasury requires these to be carried at cost less impairment)
Available for sale	LIFT investments	Fair value with movements through reserves. Accumulated gains or losses in equity are recycled to SOCNE/SOCI A/c on de-recognition or impairment of the investment

Financial Liabilities	Examples	Subsequent Measurement
Financial liabilities carried at 'fair value through profit and loss'	Derivatives	Fair value with movements through SOCNE/SOCI
Financial Guarantees		The higher of The amount determined in accordance with FRS 12 and The amount initially recognised less, where appropriate, cumulative amortisation

Other financial liabilities	Loans from DH	*Amortised cost
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*Amortised cost is the initial value minus both principal repayments and cumulative amortisation.

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

Impairments

30. Financial assets, other than those measured at fair value through profit and loss, must be reviewed for impairment at each statement of financial position date. There is no requirement to impair financial liabilities.
31. Impairments should be recognised when they occur, not when expected. An impairment loss must impact on future cash flows, and there must be objective evidence of impairment as a result of one or more events that occurred after initial recognition. IAS 39 provides examples. Impairments of financial instruments are always charged to the SoCNE, not to reserves.
32. The measurement and accounting for impairments varies depending on the classification of the financial asset:

Financial assets carried at amortised cost (loans and receivables, and held to maturity investments) – the impairment loss is measured as the difference between the carrying amount and the present value of future estimated cash flows discounted at the asset's original effective interest rate (see IAS 39). If the impairment loss decreases in a subsequent period, and this can be related to an objective event occurring after the impairment was recognised (for example, an improvement in credit rating) the impairment can be reversed. The reversal must not result in a carrying amount higher than what the amortised cost would have been had the impairment not been recognised.

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

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

Disclosures

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

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

Chapter 6 Annex 2 - Treasury Discount Rates

1. Treasury's Financial Reporting Manual describes the use of discount rates to value general provisions, post-employment benefit provisions and financial instruments. Treasury sets the standard discount rates each year by means of a "PES" paper. For the reporting period ending 31 March 2017, the PES paper is expected to be released in December 2016.
2. The rates following below applied on 31 March 2016, and will be updated on release of the PES paper.

General Provisions

3. The general provisions discount rates are used to discount future cash flows related to provisions recognised in accordance with IAS 37.
4. Treasury gives rates for short, medium and long-term general provisions. These are defined as follows:
 - **Short-term rate:** A real discount rate to be applied to the cash flows of general provisions in a time boundary of between 0 and up to and including 5 years from the Statement of Financial Position date.
 - **Medium-term rate:** A real discount rate to be applied to the cash flows of general provisions in a time boundary of after 5 and up to and including 10 years from the Statement of Financial Position date.
 - **Long-term rate:** A real discount rate to be applied to the cash flows of general provisions in a time boundary exceeding 10 years from the Statement of Financial Position date.
5. The real discount rates to be applied on 31 March 2016 to determine the net present values of provisions are:

Rate	Real Rate
Short-term	Minus 1.55% (previously -1.50%)
Medium-term	Minus 1.00% (previously -1.05%)
Long-term	Minus 0.80% (previously +2.20%)

6. Note – it is the timing of the expected cash flow that governs the discount rate used – the PES papers make no reference to setting discount rates according to the overall term of the arrangement. Thus, to arrive at the SoFP balance for a provision with expected cash flows occurring in each year for 20 years, each of the three rates will need to be applied. It would not be appropriate to discount cash flows at the long-term rate in the first 10 years simply because the liability is not expected to be wholly discharged until year 20.

Post-Employment Benefits Provisions

7. The real discount rate applicable on 31 March 2016 is 1.37% (the previous year's rate was 1.30%).
8. The rate is applicable for all provisions for continuing obligations arising from previous employment service.

Accounting – Both Categories of Discount Rate

9. The real discount rate is used where expected cash flows are expressed in current prices, i.e. those cash flows have not been uplifted for expected future inflation.
10. Accounting impacts: an increase in the discount rate for provisions results in a lower carrying value at the year end, with a consequent credit to the revenue account in-year, and vice versa.

Type of provision	Movement in discount rate compared to prior year	Impact on carrying amount and SoCNE/SoCI
Short-term (general)	Decrease (i.e. increase in negative rate)	Increase carrying amount of provision at 31 March 2016. Debit to revenue account.
Medium-term (general)	Increase (i.e. reduction in negative rate)	Reduce carrying amount of provision at 31 March 2016. Credit to revenue account.
Long-term (general)	Decrease (i.e. positive rate turned negative)	Increase carrying amount of provision at 31 March 2016. Debit to revenue account.
Post-employment	Increase (i.e. increase in positive rate)	Reduce carrying amount of provision at 31 March 2016. Credit to revenue account.

Financial instruments

11. The financial instrument discount rate is used for some financial instruments in accordance with the requirements of the *FReM*.
12. The *FReM* states (Table 6.2):

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 (promulgated in PES papers) as applied to the flows expressed in current prices.

13. The real financial instrument discount rate to be applied at 31 March 2016 is 0.7% (previously 2.2%). The rate as applied to flows expressed in current prices is RPI + 0.7%, where the financial instrument is index linked to RPI. Where the financial instrument is not linked to an inflationary index, and a nominal rate is required, 3.7% may be used.

Chapter 6 Annex 3 - Valuation Issues

1. In considering how best to apply the valuation requirements of IAS 16 to ensure that the SoFP gives a true and fair view of the value of the assets at the reporting period, entities should consider the following guidance (together with extant Treasury guidance).
2. Assets which are held for their service potential (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. For “in use” non-specialised property assets fair value should be interpreted as market value for existing use. In the RICS Red Book, this is defined as Existing Use Value (EUV).

Modern Equivalent Asset (MEA) valuations

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

Recognition and measurement

4. 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.
5. Entities should value their property using the most appropriate valuation methodology. Such methods might include:
 - a quinquennial valuation supplemented by annual indexation and no interim professional valuation
 - annual valuations, or
 - a rolling programme of valuations of properties (whether specialised or non-specialised).
6. It is for valuers, using the Royal Institution of Chartered Surveyors; (RICS) “Red Book” (RICS Appraisal and Valuation Standards), and following discussions with the entity, to determine the most appropriate methodology for obtaining a fair value. Where a valuer, following discussion with the entity, determined that depreciated replacement cost (DRC) is the most appropriate, entities and their valuers should have regard to the RICS Valuation Information Paper No. 10. VIP extracts. Other detailed valuation guidance is available on

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/191488/Green_book_supplementary_guidance_asset_valuation.pdf

7. Where DRC is used as the valuation methodology, entities should normally value a modern equivalent asset in line with the Red Book. Any plans to value a reproduction of the existing asset instead should be discussed with the Department to determine whether such an approach is appropriate to the entity's circumstances.
8. Where DRC is used as the valuation methodology, entities should use the "instant build" approach. Generally the valuation should be gross of VAT, however circumstances may arise where the asset would be more appropriately valued net of VAT. For instance, entities may recover VAT on payments for certain contracted-out services, including the provision of a fully managed and serviced building under a PFI. When revaluing assets arising from a PFI project, entities may take the view that this should be based on a value excluding recoverable VAT, reflecting the cost at which the service potential would be replaced by the PFI operator. Valuation is ultimately a matter for local valuation experts. However, PFI assets should only be revalued exclusive of recoverable VAT where there is clear evidence that this is appropriate, which should be to the satisfaction of local auditors. Where an asset was not previously acquired through a route that permits VAT to be recoverable, the asset should be valued inclusive of VAT.
9. Where DRC is used as the valuation methodology, the choice of an alternative site will normally hinge on the policy in respect of the locational requirements of the service that is being provided. Where the practical requirements of healthcare delivery, for example, require that a hospital is located on the same geographical site it now occupies, the valuation should be based on that site and not an alternative. A valuation on an alternative site basis may however be appropriate where it is clear that the alternative would offer advantages in serving the target population.
10. The cost of enhancements to existing assets (such as building of a new wing within an existing hospital) should be capitalised during the construction phase as an asset under construction. At the first valuation after the asset is brought into use, any write down of cost should be treated as an impairment and charged to the revenue account.
11. For "in use" non-specialised property assets fair value should be interpreted as market value for existing use. In the RICS Red Book, this is defined as "Existing Use Value (EUV)." (*FReM* table 6.2).

Disclosure

12. Paragraph 7.1.12 of the *FReM* requires entities to:
 - disclose in the accounting policies note the fact that in use assets are carried at current value in existing use. Entities should also provide information about the approach to valuing their estates, including a statement (where applicable) that alternative sites have been used in DRC valuations

- disclose in the notes on property, plant and equipment: the date of the last valuations of those property assets that are subject to revaluation, and the names and qualifications of the valuer; and
- discuss in the Annual Report, where they hold extensive estates: their estate management strategy; the indicative alternative use values provided by the valuer as part of the routine valuation work, and what those alternative use values mean in terms of their estate management policy.

Equipment

13. The accounting policy remains that equipment is carried at current value in existing use. The main consideration is that no material difference should arise in the financial statements as a consequence of the use of depreciated historic cost in preference to other possible measures of current cost, including indexation.
14. The following disclosures must be given: in the accounting policies note, that assets which are held for their service potential (i.e. operational assets) and are in use are measured at current value in existing use. For non-specialised assets current value in existing use is interpreted as market value for existing use. Information must also be given about any significant estimation techniques, if applicable.

Chapter 6 Annex 4: Accounting requirements for PFI/LIFT schemes

NHS LIFT investments

1. This NHS LIFT investments disclosure gives details of any LIFT investments held by the entity at the closing Statement of Financial Position date. Disclosure of investment should be analysed by equity shareholding and loan-stock holding.

PFI and LIFT - additional information

2. The relevant standards are IFRIC 12, *Service Concession Arrangements*, SIC 29, *Service Concession Arrangements: Disclosures*, and IPSAS 32, *Service Concession Arrangements: Grantor*.
3. To determine the appropriate accounting treatment of a PFI scheme, the trust should, in the first instance, determine whether the scheme falls within the scope of IFRIC 12. 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 trust or of the operator and:
 - the 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 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).
4. 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. Where a scheme falls within the scope of IFRIC 12, the 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 trust and (b) the cost of the asset can be measured reliably.
6. 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.

7. If the scheme does not fall within the scope of IFRIC 12, then the 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.
8. Discounting: where a discount rate implicit in the transaction cannot be established, the Treasury discount rate used for investment appraisal and arriving at current asset/liability values is used. Treasury "Green Book": Green Book - HM Treasury refers.
9. NHS bodies should apply both Treasury's guidance Accounting for PPP arrangements, including PFI contracts, under IFRS, in chapter 7 (7.1.48 et seq.) of the FReM and DH guidance Accounting for PFI/LIFT under IFRS on the [Group Accounting Manual page of GOV.UK](#).

Recognition of assets under PPP or PFI arrangements

10. *The FReM* notes that the grantor (under a service concession arrangement) should recognise the infrastructure as a non-current asset and value it in the same way as other non-current assets of that generic type. The asset will be recognised when:
 - it is probable that future economic benefits associated with the asset will flow to the organisation, and
 - the cost of the asset can be measured reliably.
11. The grantor should consider the asset recognition criteria, together with the specific terms and conditions of the binding arrangement, when determining whether to recognise the service concession asset during the period in which the asset is constructed or developed. If the asset recognition criteria have been met, a work-in-progress service concession asset and associated liability should be recognised. If not and the grantor makes contributions to the operator in advance of the asset coming into use, the grantor should account for those payments as prepayments and then set against the finance lease liability established when the asset is recognised.
12. Any embedded derivatives in the arrangement and any guarantees to the operator must be accounted for under financial instrument standards (IAS 32 and IAS 39). Guidance on financial instruments is provided in [Chapter 6 Annex 1: Financial Instruments](#).
13. Enhancements/additions to on-Statement of Financial Position PFI assets that are financed through the unitary charge should be recognised when they are provided. Those financed by the NHS body should be recognised as its own asset.

Disclosures

14. The disclosures in SIC 29 *Service Concession Arrangements: Disclosures* should be provided for all schemes.

15. 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.

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 the 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.

Note: Due to differences between the *FReM* requirements for entity accounts, and additional collection for the Whole of Government Accounts, there are additional collection requirements on the summarisation schedules.

c) **Applicable to NHS foundation trusts only:** 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 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.

16. Under section 410A of the Companies Act 2006, where a 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.
17. The information need only be given to the extent necessary for enabling the financial position of the trust to be assessed.

Service concession arrangements in budgets

18. HM Treasury's budget regime reflects the treatment of economic activity in National Accounts. This is based on European System of Accounts 2010 (ESA 10).
19. In many cases, the treatment of PFI, LIFT and other service concessions will differ from IFRS treatment under ESA 10, with the contracts being treated as 'off-balance sheet'. Assets are recorded 'off-balance sheet' if both of the following conditions are met:
- a) the private partner bears the construction risk; and
 - b) the private partner bears at least one of either availability or demand risk, as designed in the contract.
20. The risks are defined as follows:
- a) *Construction risk* covers events related to difficulties faced during construction and to the state of the involved asset(s) at the commencement of services. In practice it is related to events such as late delivery, non-respect of specified standards, significant additional costs, legal and environmental issues, technical deficiency and external negative events (including environmental risk) triggering compensation payments to third parties.
 - b) *Availability risk* covers cases where, during the operation of the asset, the responsibility of the partner is called upon because of insufficient management ("bad performance"), resulting in a volume of services lower than what was contractually agreed, or in services not meeting the quality standard specified in the contract.
 - c) *Demand risk* covers the variability of demand (higher or lower than expected when the contract was signed) irrespective of the performance of the private partner. In other words, a shift of demand cannot be directly linked to an inadequate quality of services provided by the partner. However, the quantitative and qualitative shortfalls have an impact on the effective use of the service and in some cases exert an eviction effect, but this primarily results from a bad management of the

availability risk. Instead, it should result from other factors such as the business cycle, new market trends, a change in final users' preferences or technological obsolescence. This is part of a usual "economic risk" borne by private entities in a market economy. Normally the demand risk is not applicable for contracts where the final user has no free choice as regards the asset-dependent service provided to them by the partner.

21. There are also other mechanisms, where government re-assumes the majority of risks of the project, which determine that the asset is recorded on the government's balance sheet, independent of the risks above and these should be considered. These are:
 - a) Termination;
 - b) Majority financing, where the government body finances the majority of the capital cost;
 - c) Government Guarantees.
22. For contracts that predate the adoption of IFRS, treatment under ESA 10 may coincide with that that previously applied under UK GAAP. However, for the purpose of assessing the budget treatment of ongoing contracts, entities should always refer to ESA 10.

Budget adjustment in summarisation schedules

23. Entities are required to complete a note in summarisation schedules quantifying the differences between IFRIC 12 and ESA 10 treatments.
24. The effect of this note is to calculate an adjustment to budget outturn to reflect the different treatment of service concession arrangements under ESA 10. This comprises the following elements:
 - a) Additions and disposals of service concession arrangement assets excluded from Capital outturn;
 - b) Depreciation/impairment and other revenue charges arising from service concession arrangement assets excluded from Resource outturn;
 - c) Revenue charges arising from payments in respect of 'off-balance sheet' assets (per ESA 10) included in Resource outturn;
 - d) Increases in reversionary interest relating to 'off-balance sheet' assets (per ESA 10) included in Capital outturn.
25. The tables in summarisation schedules have been designed to make the distinction between the two reporting regimes clear. This is described in more detail in forms completion guidance.

7. Other Statements and disclosure requirements

Statement of Changes in Taxpayers Equity (SoCTE)

- 7.1. The relevant standards are IAS1; *Presentation of Financial Statements*, and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. Departmental group bodies should refer to the example accounts format (as applicable) to ensure the correct presentation of the SoCTE, and the completion guidance for the summarisation schedules for collection requirements.

Statement of Cash Flows (SoCF)

- 7.2. The relevant standard is IAS 7, *Statement of Cash Flows*. For foreign exchange entries, the relevant standard is IAS 21, *The Effects of Changes in Foreign Exchange Rates*.
- 7.3. Amounts must be shown gross. This is very important for receipts and repayments of loans and PDC (where relevant), to enable DH reconciliations
- 7.4. Cash and cash equivalents in the Statement of Cash Flows should include bank overdrafts where they are repayable on demand and form an integral part of the entity's cash management. This is different to the treatment in the Statement of Financial Position, where IAS 39 prohibits overdrafts from being set-off in this way.
- 7.5. 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 across the accounts group, the following cash flows should be disclosed within the Statements of Cash Flows:
- 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.
 - For providers, the payment of PDC dividend also represents a cash flow associated with financing activities and therefore should be disclosed under that heading. Other group bodies will not have PDC transactions.
- 7.6. Departmental group bodies are expected to use the indirect method in their financial statements as guided by the example accounts for each sector. The summarisation schedule should be consistent with the financial statements. The financing section must follow the summarisation schedule and the example accounts formats.

Other Notes to the Accounts

Pooled budgets

- 7.7. A “pooled budget” in the NHS context is likely to be a “joint operation” as defined by the relevant standard: IFRS 11, *Joint Arrangements*. Where the arrangement constitutes a “joint venture”, IAS 28 (as adapted) is applicable. **Chapter 4 Annex 1 – Accounting for the Better Care Fund** and **Chapter 4 Annex 2: Pooled Budgets** refer. Points to note:
- Unless pooled budget transactions are immaterial, disclosure of the arrangement is required under IFRS 12;
 - When involved in a joint operation, a NHS body must bring its share of the transactions and balances of the arrangement to account. Where cash is held in a “pooled budget” (i.e. one partner holds cash on behalf of others), the contributor’s rights to that cash are reflected by its raising a receivable balance with the body that holds the cash.

Better Payment Practice code – measure of compliance

- 7.8. The note reports compliance with the better payment practice code in respect of invoices received from both NHS and non-NHS trade creditors. The code is summarised as:
- Target: pay all NHS and non-NHS trade payables within 30 calendar days of receipt of goods or a valid invoice (whichever is later) unless other payment terms have been agreed
 - Compliance: at least 95% of invoices paid (by the bank automated credit system or date and issue of a cheque) within thirty days or within agreed contract terms.
- 7.9. Departmental group bodies should be aware when completing the disclosure that:
- The note must relate to all invoices paid during the year, excluding those issued up to 31 March that are in dispute at the year-end
 - Further details and guidance on the Better Payment Practice Code and “A User’s Guide to late payments legislation” can be found at <http://www.payontime.co.uk>
 - The format of the disclosure can be found in the example accounts format. NHS foundation trusts have discretion over whether to include this disclosure, as described in paragraph **4.6**.

The Late Payment of Commercial Debts (Interest) Act 1998

- 7.10. The Late Payment of Commercial Debts (Interest) Act 1998 allows entities to claim interest on the late payment of debts by contracting partners. Details of the disclosure requirements incurred can be found in the example accounts format, as described in paragraph **4.6**. NHS foundation trusts have discretion over whether to include this disclosure in their accounts, but otherwise must include it in their annual report.

Capital and Other Commitments

- 7.11. For capital commitments, the relevant standards are IAS 16, *Property, Plant and Equipment*, paragraph 74(c) and IAS 38, *Intangible Assets*, paragraph 122(e).
- 7.12. Other commitments (excluding leases, PFI and LIFT) under non-cancellable contracts are also shown.
- 7.13. IAS 16 (paragraph 74c) and IAS 38 (paragraph 122e) require that the contractual commitments at the year end to purchase property, plant and equipment and intangible assets are disclosed. An asset provided under a finance lease does not give rise to statement of financial position entries in respect of the creation of the non-current asset and its related capital creditor until the asset is delivered and is operational in the entity's hands. When a NHS body has signed an "on-balance sheet" finance lease contract in the accounting period (whether PFI or other), but the asset does not become operational until a future period, a disclosure in the format provided in the example accounts format should be included as a note to the Accounts.

Intra Government and other balances

- 7.14. In December 2015, the requirement to disclose a breakdown of payables and receivables due from/to entities within the Whole of Government Account boundary was removed from the FReM,
- 7.15. The summarisation schedules will still request balances to be broken down by inter-government sector. The breakdown of balances will assist in the:
- validation of balances recorded with other group bodies as part of the Agreement of Balances exercise
 - the elimination of group trading balances from the consolidated accounts
 - validation of the data collected for the departmental group's Whole of Government Accounts submission.

Finance lease obligations (as lessee)

- 7.16. The relevant standards for this note are IAS 17, *Leases*, SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* and IFRIC 4, *Determining whether an Arrangement Contains a Lease*.
- 7.17. The minimum lease payments are:
- the payments over the term of the lease,
 - less the following:
 - contingent rent;
 - costs for services;
 - costs that will be reimbursed;

- any amounts guaranteed by the other party or a related party to them, and
 - where the lessee has the option to purchase the asset at a price that makes it reasonably certain at the inception of the lease that the option will be exercised, the payment to exercise the option.
- 7.18. Minimum lease payments are shown in those columns undiscounted: discounting is applied under “less future finance charges” to bring the total to a discounted (present value) figure.
- 7.19. The present values of minimum lease payments are the “minimum lease payments” discounted to present value. As the discounting has been applied in these three rows, no entry is required against “less future finance charges”.
- 7.20. A general description of significant lease arrangements should also be included in this note.

Finance lease receivables (as lessor)

- 7.21. The relevant standards are:
- IAS 17: *Leases*;
 - SIC-27: *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*; and,
 - IFRIC 4: *Determining whether an Arrangement contains a Lease*.
- 7.22. The note should include a reconciliation between the gross investment in finance leases at the SoFP date and the present value of the minimum lease payments receivable at the SoFP date.

Contingencies

- 7.23. The relevant standard is IAS 37, *Provisions, contingent liabilities and contingent assets*.
- 7.24. Where disclosure of a contingent asset or liability may prejudice legal proceedings the situation should be discussed with the NHS body’s external auditor, and agreement reached on what disclosure is possible/appropriate.

Events after the reporting period

- 7.25. The relevant standard is IAS 10, *Events after the Reporting Period*. Adjusting events will be reflected in the financial statements.
- 7.26. Where non-adjusting events after the reporting period are so material that non-disclosure could influence the economic decisions of users taken on the basis of the financial statements, the following information is required:
- the nature of the event, and

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

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

Related party transactions

7.28. The relevant standard is IAS 24, *Related Party Disclosures*, and NHS bodies should be aware of the IAS 24 amendment contained within Annual Improvements to IFRS 2010-12, which refers to key management personnel services being provided by another entity.

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

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

7.31. 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.

7.32. NHS bodies must disclose as a related party all linked charities (where these are not consolidated) including the nature of the relationship, and details of material transactions between the body and the linked charity.

Losses and special payments

7.33. The relevant standard is IAS1, Presentation of Financial Statements, paragraph 77. HM Treasury's Managing Public Money and detailed summarisation schedule completion guidance on the subject should be followed: the threshold for additional disclosures of losses now stands at £300k, however all losses below this amount should be disclosed in aggregate. The example accounts format illustrates the contents of this disclosure. Figures recorded here are recorded on an accruals basis.

7.34. Where an entity is required to include this as part of the parliamentary accountability and audit report (Chapter 2 paragraph 2.50), there is no requirement to duplicate the losses and special payments note as an accounts disclosure. NHS foundation trusts should refer to the *ARM 2016-17* for the annual reporting requirements.

7.35. NHS foundation trusts should include a note disclosing information on losses and special payments 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.
- 7.36. 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

Third party assets

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

Chapter 7: CCG Appendix

The following additional disclosures are applicable to CCGs:

Performance measures

1. NHS England issued guidance on reporting CCG performance (“Note 42” in last year’s example accounts format”. This is reproduced below:

Clinical commissioning groups have a number of financial duties under the National Health Service Act 2006 (as amended).

The clinical commissioning group’s performance against those duties was as follows:

NHS Act Section	Duty	Maximum performance £000s (2013-14 £x)	Duty Achieved?
223H(1)*	Expenditure not to exceed income	x (x)	Y/N
223I(2)	Capital resource use does not exceed the amount specified in Directions	x (x)	Y/N
223I(3)	Revenue resource use does not exceed the amount specified in Directions	x (x)	Y/N
223J(1)	Capital resource use on specified matter(s) does not exceed the amount specified in Directions	x (x)	Y/N
223J(2)	Revenue resource use on specified matter(s) does not exceed the amount specified in Directions	x (x)	Y/N
223J(3)	Revenue administration resource use does not exceed the amount specified in Directions	x (x)	Y/N

*Note: For the purposes of 223H(1); expenditure is defined as the aggregate of gross expenditure on revenue and capital in the financial year; and, income is defined as the aggregate of the notified maximum revenue resource, notified capital resource and all other amounts accounted as receiveable in the financial year (whether under provisions of the Act or from other sources, and included here on a gross basis).

[For items under 223J(1) and 223J(2) provide information on the specified matter(s) and their individual performance against target, splitting the table disclosure if need be to highlight items

that have breached target separate from items within target (i.e. disclosing aggregated achievement within target should not be used to 'hide' a breach of target against one or more Direction))]

[Disclose the details of any reports has been issued by the clinical commissioning group's auditors]

Points to Note

2. Where a clinical commissioning group breaches, or plans to breach, one of the statutory financial provisions, even if this is agreed with NHS England (e.g. setting a deficit budget), local auditors are under a duty to make a report to the Secretary of State for Health under Section 30 of the Local Audit and Accountability Act 2014.
3. The wording of Section 223H(1) is as follows:

(1) Each clinical commissioning group must, in respect of each financial year, perform its functions so as to ensure that its expenditure which is attributable to the performance by it of its functions in that year does not exceed the aggregate of:

- (a) the amount allotted to it for that year under section 223G,
- (b) any sums received by it in that year under any provision of this Act (other than sums received by it under section 223G), and
- (c) any sums received by it in that year otherwise than under this Act for the purpose of enabling it to defray such expenditure.

Section 223H(1) and 223G do not distinguish between resources allotted for capital use and resources allotted for revenue use.

The amount to be included in the 'Maximum' column for the 223H(1) line is therefore the aggregate of:

- (a): The clinical commissioning group's notified maximum revenue resource use plus maximum capital resource use;

PLUS

(b): All other sums received in year under other provisions of the Act (and accounted for in the financial results of the year);

PLUS

(c): All other income received in year (and accounted for in the financial results of the year, regardless of whether accounted for gross or net).

The amount to be included in the 'Performance' column for the 223H(1) line is the aggregate of:

(a) Total revenue expenditure (accounted for in the financial results of the year, regardless of whether accounted for gross or net);

PLUS

(b) Total capital expenditure (accounted for in the financial results of the year).

Chapter 7: NHS Trusts Appendix

Impact of IFRS treatment

1. This note reflects budgetary information that was collected as management information in previous years. It identifies impacts to revenue expenditure flowing from the implementation of IFRS and where DH budgetary treatments may differ from the IFRS treatment. Under IFRS this data forms part of the Department's Resource Account and so is now included as an auditable part of the Annual Accounts format.
2. Detailed guidance on the completion of this note is included separately in the summarisation schedule guidance. Comparator figures are not required for prior years as the disclosure (a) is not required by IFRS and (b) only current year information is of relevance to the Department.

Performance information

3. The performance outturn against targets listed below are reported in this note by NHS trusts. These results form part of the NHS trust's annual report and accounts. Detailed descriptions of their operation and instructions on the completion of the note are given in the trust-specific summarisation schedules completion guidance:
 - Breakeven performance
 - Capital cost absorption rate
 - External financing limit
 - Capital Resource limit