



Department
of Health

Department of Health Group Manual for Accounts 2015-16

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Department of Health Group Manual for Accounts 2015-16

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1. Introduction

Introduction

- 1.1. The Department of Health Group Manual for Accounts 2015-16 (MfA) sets the accounting policies to be followed by members of the Department's Consolidation Group and provides principles-based guidance to NHS bodies on how to prepare and complete their annual report and accounts (relevance to FTs is set out below in para 1.3).
- 1.2. The 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.
- 1.3. This Manual is not directly applicable to NHS Foundation Trusts. These bodies will follow guidance issued by Monitor. Monitor prepares a sector-specific consolidated account that represents a sub-consolidation from the Group viewpoint. It follows that the sub-consolidation and Group returns must be prepared in accordance with accounting policies set out in this Manual. **Where the accounting guidance issued by Monitor differs from this Manual, Monitor is responsible for adjusting its sub-consolidation to achieve adherence with the relevant policies set out in this Manual.**
- 1.4. NHS England is required to issue Directions to Clinical Commissioning Groups (CCGs) in respect of their Annual Report and Accounts. The Directions require compliance with the MfA: the Manual is therefore applicable to CCGs, as it is to NHS England.
- 1.5. The Group-level guidance in the core manual does not fully meet the reporting needs of NHS Trusts and CCGs. Additional appendices supplement core guidance in the relevant chapters of the Manual. These form an integral part of the Manual and are organised so as to assist in locating entity-type specific guidance. Thus, the CCG corporate governance reporting requirements: these are unique to CCGs and so are presented in an appendix to Chapter 2.
- 1.6. [Annex 1](#) below summarises the current statutory requirements on Accounts Directions and guidance for the various NHS organisations.

The FReM

- 1.7. This MfA has been drafted to meet the [Government Financial Reporting Manual 2015 to 2016](#) (FReM) requirements. The FReM is the technical accounting guide

for the preparation of all Departmental Accounts. The FReM follows International Financial Reporting Standards (IFRS) and Companies Act requirements, but in several important areas interprets and adapts Standards to better meet Government's reporting requirements. The FReM also details additional disclosures for the public sector. The MfA provides guidance that specifically addresses the NHS' requirements, but readers must refer to both documents.

- 1.8. The FReM makes reference to this MfA and to the Foundation Trust Annual Reporting Manual (ARM) as the source of detailed guidance for these bodies. CCGs and ALBs are required to follow the FReM.
- 1.9. The MfA follows the FReM: there are no significant divergences in 2015-16. Treasury is required to consult an independent body, the Financial Reporting Advisory Board (FRAB), when preparing the FReM. The MfA and FT ARM are also reviewed by the FRAB.

The Manual for Accounts: structure and relationship to other guidance.

- 1.10. The MfA is not an accounting textbook and does not repeat IFRS requirements where these can be applied without specific interpretation for the NHS. The MfA assumes that the user will be conversant with current accounting standards. The Manual:
 - Forms part of Accounts Directions issued to reporting bodies by the Secretary of State (SofS), and by NHS Commissioning Board (NHS England) in the case of CCGs, after approval by SofS
 - Mandates particular accounting treatments where Standards permit a choice, to ensure consistency within the sector
 - Draws attention to interpretations and adaptations of Standards set out in the FReM, usually repeating the required departures from Standards
 - Highlights further NHS-specific departures from the FReM, as agreed with Treasury (there are no such departures in 2015-16)
 - Specifies contents and layout of Accounts and Annual Report scope and contents, 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 which require consistent application in the NHS context.
- 1.11. 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 finance manual 'finman' website at www.info.doh.gov.uk/doh/finman.nsf. Any updates issued in this way should be treated as having the same status as guidance issued in this Manual. Users should check the 'finman' site regularly for new guidance under '[What's New](#)' and '[Frequently Asked Questions](#)'.

- 1.12. The following items will be available on the ‘finman’ website (or Treasury website in the case of Treasury guidance). These do not form part of the Manual for Accounts, but form part of a wider body of guidance, as represented by the “finman” website:
- 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 MfA guidance and the two sets of guidance will be consistent with each other. The MfA 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
 - 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

NHS Group bodies

- 1.13. A detailed accounts submission process, showing deadlines and procedures for handling statutory accounts and summarisation schedules, will be provided by the responsible authorities (DH, Monitor or NHS England) later in the year. Treasury PES papers give detailed guidance for those bodies that lay their own Annual Reports and Accounts (ARAs) in Parliament.

Chapter 1 Annex 1 - Accounts Directions (structure)

Entity	Accounts Direction Determination by:	Accounts Direction Approved by:
NHS England (own accounts and consolidation of CCG accounts)	Department of Health (Secretary of State)	Treasury
Monitor (own accounts and consolidation of FT accounts)	Department of Health (Secretary of State)	Treasury
NHS Trusts	Department of Health (Secretary of State)	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)	Treasury

Accounts Directions are made under the following legislation:

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](#)

2. Annual Report and Accounts

Introduction

- 2.1. HM Treasury is currently undertaking the Simplification and Streamlining of Accounts project, the aim of which is to 'simplify and streamline the presentation of the Annual Report and Accounts (ARA) ... so as to better meet the needs of the users of the accounts and, where possible, remove unnecessary burdens from the preparer community'. As a result of this, the FReM has made significant changes to the format of the document from 2015-16. NHS bodies are required to publish, as a single document, a 3 part annual report and accounts (ARA) which includes:
- 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. NHS bodies may omit headings or sections where they consider that these are not relevant but all of the content outlined in this manual should be included.

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 NHS body within the community and give sufficient information to meet the requirements of public accountability. Where NHS bodies are dissolved mid-year (with functions transferring to any other public sector entity), the application of absorption accounting (see [Chapter 4](#)) is consistent with the principle that an ARA is required in respect of any part-year period in which the entity existed. A closing NHS body will have to prepare an ARA as the successor body will only bring its own transactions in the year to account from the date of transfer of functions. The authorisation of a NHS Trust as a Foundation Trust during a reporting year similarly requires the preparation of a part-year ARA.
- 2.4. The annual report and accounts as a whole must be fair, balanced and understandable and the Accountable/Accounting Officer takes personal responsibility for it and the judgments required for determining that it is fair, balanced and understandable.

Accountable/Accounting Officer's signature

- 2.5. The Accountable/Accounting Officer shall sign and date the Performance Report, Accountability Report and the Statement of Financial Position.

CCG Governance

- 2.6. 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.
- 2.7. 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.
- 2.8. Further details regarding the application to CCGs is available in the CCG annex and will provide additional guidance in relation to the status of CCG Governing bodies, Governing body Members and CCG membership and members.

Performance Report

- 2.9. 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.
- 2.10. Auditors will review the performance report for consistency with other information in the financial statements.
- 2.11. The performance report shall be signed and dated by the Accounting/Accountable Officer or Chief Executive.

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 Section 19 Report for a CCG or Trust), 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, and
- Performance on other matters, including sustainable development and any other requirements raised during the year (e.g. in Treasury PES papers): the Department will generally 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 disclosures
- Exit packages, if relevant, and

- Analysis of staff numbers.

2.19. The accountability report shall be signed and dated by the Accounting/Accountable Officer or Chief Executive.

2.20. The accountability report is required to have three sections:

- Corporate Governance Report
- Remuneration and Staff Report
- Parliamentary Accountability and Audit Report

Corporate governance report

2.21. 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.

2.22. 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

2.23. 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

Statement of Accounting/Accountable Officer's responsibilities

2.24. The Accounting/Accountable Officer should explain his/her responsibility for preparing the financial statements.

- 2.25. 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.
- 2.26. 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

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

Remuneration and staff report

- 2.28. 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.
- 2.29. In addition the report provides details on remuneration and staff that users of the accounts see as key to accountability.
- 2.30. 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.
- 2.31. 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.
- 2.32. 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.

2.33. The definition of “Senior Managers” is:

‘those persons in senior positions having authority or responsibility for directing or controlling the major activities of the NHS body. This means those who influence the decisions of the entity as a whole rather than the decisions of individual directorates or departments.’

2.34. The Chief Executive or Accountable/Accounting 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

2.35. 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 and 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

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

Remuneration Report Tables

2.37. The tables for use as part of the Remuneration Report (the Single Total Figure and Pension Entitlement tables) are reproduced below in Annex 1.

2.38. 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.

2.39. In addition disclose:

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

2.40. **CCG pension disclosures relating to GPs serving on the Governing Body are discussed in the Appendix (see CCG Appendix 2 for additional CCG guidance).**

Compensation on early retirement or for loss of office

2.41. **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

- 2.42. 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.

Pay Multiples

- 2.43. Entities must disclose the following information **together with prior year comparatives**:
- the median remuneration for all staff;
 - **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**
- 2.44. The calculation is based on the full-time equivalent staff of the reporting entity at the reporting period end date on an annualised basis and is subject to audit.
- 2.45. 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.
- 2.46. 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.”

- 2.47. 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. Departments should note that this may not necessarily be an increase to base pay, but a change in taxable expenses or allowances. Where the allowance is temporary (e.g. relocation allowance), departments should note this and its likely impact on the pay multiple
 - A change of the most highly paid 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.)
- 2.48. 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.
- 2.49. 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

- 2.50. The staff report must include the following information:
- a) **Number of senior civil service staff (or equivalent) 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 report on staff sickness. Details of the disclosure are included in the guidance for summarisation schedules
- 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).

Annex 4 below provides the model template and guidance on “off-payroll” disclosures.

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.

2.51. Annex 3 below provides model templates and guidance on exit package and voluntary severance disclosures.

Parliamentary accountability and audit report

- 2.52. The Parliamentary accountability and audit report should contain disclosure on the following:
- regularity of expenditure
 - fees and charges (if applicable)
 - (Public Sector Information Holders only) a statement is required if the entity has not complied with the cost allocation and charging requirements set out in HM Treasury guidance
 - a brief description of the nature of each of the entity's material remote contingent liabilities (that is, those that are disclosed under Parliamentary reporting requirements and not under IAS 37) and, where practical, an estimate of its financial effect
 - long-term expenditure trends, and
 - audit certificate and report. 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
 - notation of gifts made over a value of £300,000 (see *Managing Public Money* annex 4.12). Note, these require prior Treasury approval.

Separate strategic report and supplementary material

- 2.53. Once the full annual report and accounts have been laid before Parliament (where bodies report directly to Parliament), NHS entities (excluding CCGs) have discretion as to whether they wish to publish the full document locally or a separate performance report: overview together with supplementary material (See the CCG Appendix 1 and for further CCG guidance). **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. DH (and Monitor) consider that the performance report: overview section (as defined in this chapter) is the equivalent to the strategic report for these purposes.**
- 2.54. 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.
- 2.55. **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

The following additional provisions apply to CCGs.

1. 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 MfA.
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.
3. **Business information**

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.
4. **Details of Members of the Membership Body and Governing Body**

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.
5. **Audit Services**

CCG auditors undertake statutory activities under the Code of Practice that are not related to the audit of the CCG's Financial Statements (e.g. value for money work). The cost of this work should be included as 'audit services', and therefore do not require disclosure here.

Chapter 2 CCG Appendix 2 – Pension Disclosures

Introduction

For CCGs the correct classification of GPs on the Governing Body will drive the salary and pension disclosures required in the Remuneration Report.

Within the NHS Pension Scheme there are two types of member:

- Practitioner; and,
- Officer.

Practitioner covers medical, dental and some ophthalmic practitioners, who meet specific criteria.

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.

All of the above must be on the medical performers list and registered with the General Medical Council.

Their NHS Pension Scheme Employing Authority is NHS England even for salaried GPs employed by a surgery.

Individuals not meeting the criteria to be classed as a Practitioner in NHS Pension terms are classed as an Officer.

Prior Year Comparatives

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 Manual for Accounts	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 Manual for Accounts requirement.		
Off Payroll Worker Disclosures	n/a	Include as per Manual for Accounts guidance. Confirmation of regularity of tax arrangements and tax payments required, as per Manual for Accounts guidance.		
Pension Disclosures	Full disclosure as per Manual for Accounts.	Off payroll worker – no pension disclosure required. Exclude from the pensions table.		

	<p>Request information from NHS Pensions in line with Greenbury process.</p>	<p>Include a note under the pension table to explain why some individuals included in the salary table are not included in the pension table.</p>
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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. 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

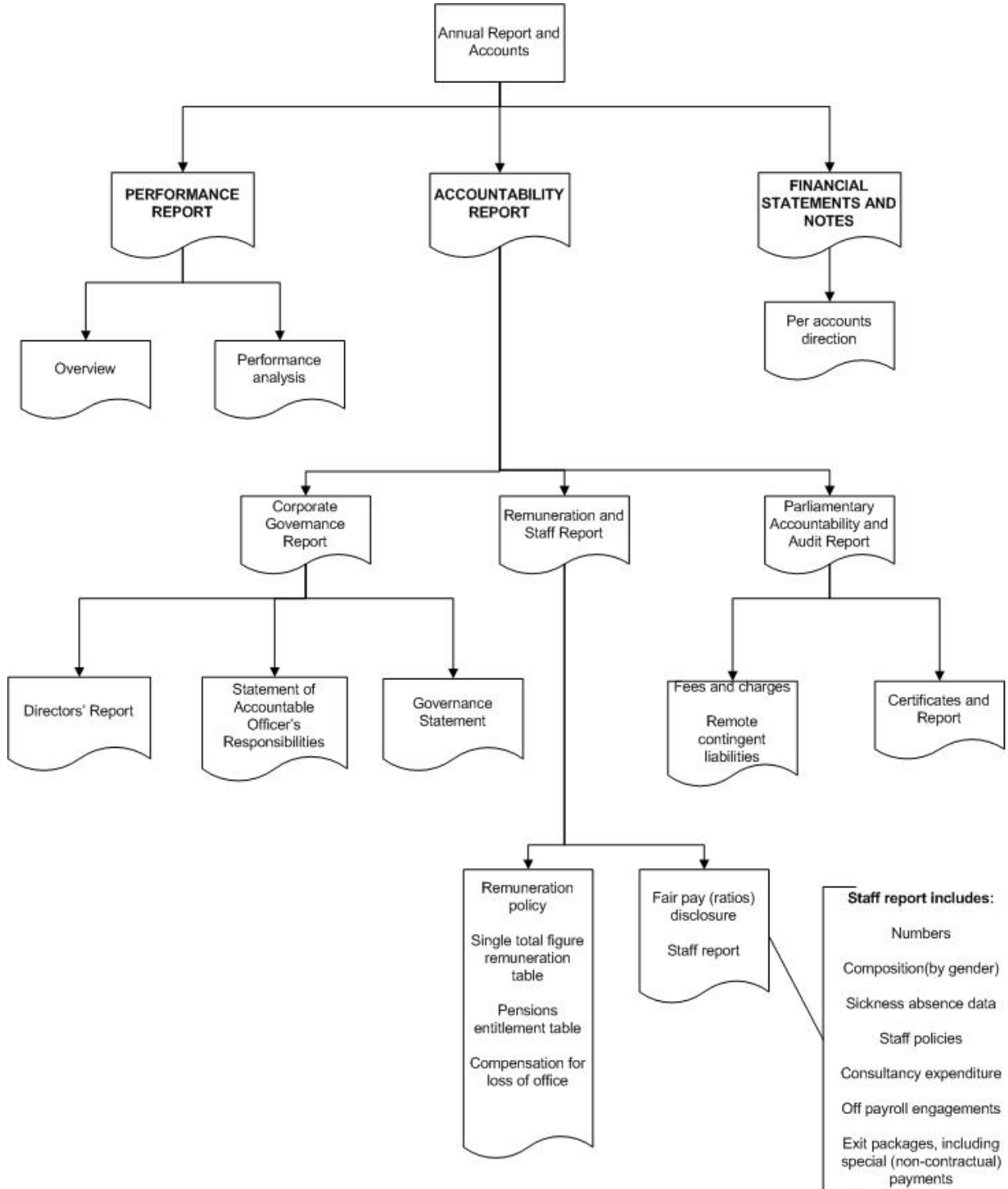
Type of Contract	Contract of Service with individual	Contract for Service with individual	Contract with Corporate Body
Employment Status	Employee	Off Payroll Worker	
Payment Route	Payroll	Accounts Payable*	Accounts Payable
Eligible for NHS Pension	Yes	No	
NHS Pension Status	Officer	n/a	
NHS Pension Employing 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 Manual for Accounts	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 Manual for Accounts requirement.	
Off Payroll Worker Disclosures	n/a	Include as per Manual for Accounts guidance. Confirmation of regularity of tax arrangements and tax payments required, as per Manual for Accounts guidance.	
Pension Disclosures	Full disclosure as per Manual for Accounts. 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. 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

Salaries and allowances

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) £000	(f) TOTAL (a to e) (bands of £5,000)
	£000	£00	£000	£000		£000

Provide comparative information for the prior year.

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)

Where more than one individual occupied the same post over the year, details must be disclosed here

*Note: £ hundreds are used for the taxable expenses and benefits in kind disclosures

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

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

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

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

The requirements of Part 3 of [Schedule 8](#) 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).
- 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.

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.

Column (b): all taxable benefits (to the nearest £100 and disclosed in £00s)

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. Note: the disclosure is in £00s.

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). Para 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).

*in summary: for defined benefit schemes, the amount included here is the annual increase (expressed in £2,500 bands) in pension entitlement. In summary, the increase = $((20 \times PE) + LSE) - ((20 \times PB) + LSB)$

where:

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

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

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

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

These figures are available from the information provided by the NHS Pensions Scheme for “Greenbury” reporting purposes. (See above – employee contributions for the year are deducted after the calculation above has been made).

(PB and LSB include the year’s inflation uplift)

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

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

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".

Table 2: 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.

Exit packages Note: Table 1

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.

Exit packages Note: Table 2

	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 packages can be made up of several components each of which will be counted separately in this Note, the total number above will not necessarily match the total numbers in Note 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 e.g. in PES (2013) 09. 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 the information for consolidation purposes.
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.
7. For all off-payroll engagements as of 31 March 2016, for more than £220 per day and that last for longer than six months:
 - The total number of existing engagements as of 31 March 2016
 - The number that have existed for less than one year at time of reporting

- The number that have existed for between one and two years at time of reporting.
 - The number that have existed for between two and three years at time of reporting.
 - The number that have existed for between three and four years at time of reporting.
 - The number that have existed for four or more years at time of reporting.
 - 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.
9. For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than six months:
- The number of new engagements, or those that reached six months in duration, during the time period
 - The number of 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. **Departments should be aware that**

they will not be informed by HMRC of the results of any investigation it may undertake and therefore departments 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.
15. For any off-payroll engagements of board/Governing Body members and/or senior officials with significant financial responsibility between 1 April 2015 and 31 March 2016 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 posts, as of 31 March 2016, within the bodies that meet the criteria of “board members and/or senior officials with significant financial responsibility”. This figure should include both off-payroll and on-payroll engagements.

Disclosure should be in the format shown in [table 3](#) below.

Off-payroll engagements Table 1

For all off-payroll engagements as of 31 March 2016, for more than £220 per day and that last longer than six months:

	Number
Number of existing engagements as of 31 March 2016	
<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.

Off-payroll engagements Table 2

For all new off-payroll engagements between 1 April 2015 and 31 March 2016, 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 2015 and 31 March 2016	
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 department has engaged without including contractual clauses allowing the department to seek assurance as to their tax obligations – or where assurance has been requested and not received, without a contract termination – the department 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”.

Off-payroll engagements Table 3

Table 3: For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2014 and 31 March 2015

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 NHS bodies are determined by the Department of Health (and Monitor for NHS Foundation Trusts) with the approval of HM Treasury. Bodies within the resource accounting boundary must follow the Treasury's [Government Financial Reporting Manual 2015 to 2016](#) (FReM). The FReM generally applies EU-adopted International Financial Reporting Standards (IFRS) in effect for accounting periods commencing on or before 1 January 2015. NHS bodies must follow the FReM unless there are any divergences agreed by HM Treasury. 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 in the NHS context. It was announced in the Government's 2008 budget that public sector bodies would produce financial statements based on International Financial Reporting Standards 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.
- 3.3. International Accounting Standard (IAS) 8 Accounting Policies, Changes in Accounting Estimates and Errors provides that, where there is no specific international standard or interpretation for a particular issue, users can look to the pronouncements of other standard setters (for example, the UK Accounting Standards Board) provided that they do not conflict with international standards and interpretations.

Accounting convention

- 3.4. NHS 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 standard.

The Framework

- 3.5. 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'.

True and fair view

- 3.6. NHS 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 policies and materiality (IAS 1, IAS 8)

- 3.7. NHS Trusts and CCGs must adopt the accounting policies set out in this manual and shown in the example accounts format's Accounting Policies Note(annex X). ALBs should select suitable accounting policies which provide the most relevant and reliable information, having regard for the accounting policies in the example accounts format.
- 3.8. There is no requirement to disclose policies that are irrelevant or immaterial to the entity in the accounting policies note.
- 3.9. IAS 8 notes that accounting requirements in the standards need not be applied to immaterial items, but also notes that "it is inappropriate to make, or leave uncorrected, immaterial departures from IFRS to achieve a particular presentation of an entity's financial position, financial performance or cash flows".
- 3.10. Similarly, IAS 1 notes that specific disclosure requirements of IFRS need not be satisfied if the information is not material. Both IAS 1 and 8 define materiality as follows:
"Omissions or misstatements of items are material if they could individually, or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size and nature of the item, or a combination of both, could be the determining factor."
- 3.11. While an individual body's statutory accounts may be edited, for example to avoid disclosures of immaterial transactions, summarisation schedules may not be edited and all specified disclosures should be completed.

Key sources of judgement and estimation uncertainty

- 3.12. Under IAS 1, *Presentation of Financial Statements*, NHS 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

- 3.13. 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.
- 3.14. 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

- 3.15. 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.

Changes in accounting policy

- 3.16. 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.
- 3.17. Changes in accounting policy arising from the introduction of a new standard or interpretation shall be implemented in accordance with the specific transitional provisions, if any, of that standard or interpretation. Where no such specific transitional provisions exist, or where an accounting policy is changed voluntarily, the change must be applied retrospectively, i.e. through a prior period adjustment.
- 3.18. 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.

- 3.19. Where an entity has to make a prior period adjustment (for any reason other than an adjustment required by the manual), they should inform DH/NHS England so that the appropriate information can be collected for consolidation.

Primary statements: terminology

- 3.20. The various types of NHS organisation use different presentations for financial data. HM Treasury permits certain departures from the Government Financial Reporting Manual (FReM) and Department Yellow formats in the interest of presentations that most appropriately report underlying transactions and business activity. This chapter adopts the FReM descriptors for the four primary statements:

- Statement of Comprehensive Net Expenditure – SoCNE
- Statement of Financial Position – SoFP
- Statement of Cash Flows - SoCF, and
- Statement of Changes in Taxpayers' Equity – SoCTE.

- 3.21. Organisation-specific guidance will differ from FReM descriptors e.g. using a Statement of Comprehensive Income (SoCI) for NHS Trusts, to better reflect the nature of their activities.

Summarisation schedules

- 3.22. In addition to the statutory annual report and accounts produced by each entity, bodies need to communicate the same data, with further analysis to permit consolidation, to the Department, NHS England or Monitor in a standard format that can be automatically processed. For example, where NHS bodies will report intra-group transactions at a relatively summarised level appropriate for local reporting, more extensive entity-by-entity figures are required to meet the practical requirements of consolidation.
- 3.23. Summarisation schedules are therefore produced for each reporting entity by the body the entity reports to. While such schedules are not formally audited, audit assurance that the schedules and accounts are consistent is sought. The Department is then able to establish that the national consolidated account is based on underlying audited accounts data.
- 3.24. Summarisation schedules are produced towards the end of the financial year and are supported by detailed completion instructions. NHS bodies will wish to adapt their annual reports and accounts to reflect their unique business requirements and to meet the needs of their stakeholders (e.g. by adding detail to some notes and disclosures and omitting others where immaterial). Summarisation schedules, as computer-input documents, cannot be amended locally and must be completed as set out in completion instructions from the organisations that issue them.

Gross and Net accounting

- 3.25. 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.
- 3.26. 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.
- 3.27. 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.

Going concern

- 3.28. 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.
- 3.29. 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. 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.
- 3.30. 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.
- 3.31. 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.
- 3.32. Should a NHS 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.

Prior period adjustments (PPAs)

- 3.33. This manual makes a clear distinction between:
- Those PPAs required as a result in a change in accounting policy (a “national” PPA), and
 - PPAs that are required under IAS 8 to correct material errors in the accounts (“local” PPAs).
- 3.34. In the case of the former, the FReM 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.
- 3.35. Local PPAs present difficulties in terms of reconciling local accounts data with that in national consolidated accounts. Generally, the correct application of IAS 8 will result in a requirement for local accounts to be restated, but will prohibit a matching national restatement (as different materiality levels apply locally and nationally affect the decision on whether to restate).
- 3.36. 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.
- 3.37. 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.

Events after the reporting period

- 3.38. IAS 10, Events after the Reporting Period, is applicable: it states the requirements as to whether events after the end of the reporting period should be adjusted in the financial statements. Adjusting events are those providing evidence of conditions existing at the end of the reporting period, whereas non-adjusting events are indicative of conditions arising after the reporting period (the latter being disclosed where material).
- 3.39. NHS bodies that close, or are re-configured after their reporting date, will also need to give information in their annual report on both the reconfiguration and any public consultations that preceded the reconfiguration.

Accounting Boundaries and Business Combinations

Acquisition/Transfer of a business from inside of the WGA boundary

- 3.40. IFRS 3, Business Combinations, does not apply to combinations involving entities under common control. Public sector bodies are deemed to be under common control, so IFRS 3 is applicable only to those business combinations that involve an entity or entities outside the public sector (as defined by the ONS).
- 3.41. For a transfer of functions within the public sector, the FReM requires a form of absorption accounting.
- 3.42. Revaluation reserves are preserved by means of a subsequent transaction (dr General Fund/retained earnings reserve, cr revaluation reserve).
- 3.43. Absorption accounting does not permit restatement of prior-year results.
- 3.44. See also Chapter 4 Annex 9 for further details about transfer of functions under absorption accounting.
- 3.45. The FReM also gives guidance on merger accounting. It is unlikely that NHS bodies will need to apply merger accounting as the arrangement applies to “machinery of Government” transactions that cross Departmental boundaries – transactions with Local Authorities will be dealt with by use of “absorption accounting”. Even where the cross-Departmental arrangement applies (where merger accounting is applicable at the national account level), the local body will apply absorption accounting. The Department will however bring the transaction to account using merger accounting.
- 3.46. NHS bodies therefore need to be aware of the circumstances in which merger accounting will be required in the group account, so that the Department can be advised of the arrangement on an individual case basis.

Acquisition of a business from outside of the WGA boundary

- 3.47. Where an NHS body acquires a business from outside of the Whole of Government Accounts boundary, it should be accounted for in accordance with IFRS 3.
- 3.48. 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*.

Business combinations disclosures

- 3.49. A NHS 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, and
 - the effect on the financial statements.
- the historical financial performance of the function, to enable users to understand the operational performance.
- 3.50. 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.
- 3.51. Summarisation schedules will require a more detailed analysis to enable the transitions to be reconciled between transferor and transferee.

Group Accounting Standards

- 3.52. 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 (including NHS organisations) 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).
- 3.53. 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*
- 3.54. The table below summarises the impact of the statements taken together on Department of Health Group bodies.
- 3.55. NHS trusts, NHS Foundation Trusts and CCGs are considered to be Arm’s Length Bodies (ALBs) are defined by FReM (1.4.1) for the purposes of the application of these Standards.

Investment	Department's Accounting and Budgetary Treatment	ALB accounting treatment
<p>Entity has control over investee.</p> <p>IFRS 10 <i>Consolidated Financial Statements</i> applies, as adapted for the Department</p>	<p>If the subsidiary is designated to the DH boundary by virtue of a SI following ONS classification:</p> <p>Consolidate per IFRS 10</p> <p>If subsidiary is a public sector body not designated or is classified as a public corporation:</p> <p>Treat as investment per IAS 39 - <i>Financial Instruments: Recognition and Measurement</i></p>	<p>Apply IFRS 10 in full and unadapted in Statutory Accounts.</p> <p>For Summarisation Schedules, if the impact is material to the Group returns, adopt the Department's accounting approach.</p>
<p>Entity has investments in joint ventures or associates that are outside the public sector.</p>	<p>If the investee is classified to the private sector and the rest of the world by ONS:</p> <p>Apply IAS 28 - Investments in Associates and Joint Ventures and apply the equity method of accounting.</p>	<p>Apply IAS 28 in full and unadapted in Statutory Accounts.</p> <p>ALB accounting will be consistent with DHs.</p>
<p>A joint arrangement exists</p>	<p>For bodies classified to the Departmental boundary, IFRS 10 will generally apply (see above).</p> <p>If the investment is in another public sector body or public corporation:</p> <p>Treat as investment per IAS 39 - <i>Financial Instruments: Recognition and Measurement</i> as above</p> <p>If the investment is with a body classified to the private sector and rest of the world by the ONS:</p> <p>Apply IFRS 11 without adaptation.</p>	<p>Apply IFRS 11 – <i>Joint Arrangements</i> in full and unadapted.</p> <p>For <i>joint operations*</i>, (and for joint ventures with partners classified to the private sector and rest of the world) treatments are consistent with DH.</p> <p>For joint ventures, there is potentially a mis-match in treatments where the joint venture is with a public sector body or public corporation as classified by the ONS. In this event, where the impact is material to the Group returns, adopt the Department's accounting approach.</p>
<p>Disclosures</p>	<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)

- 3.56. From 2014-15, IFRS 10, *Consolidated Financial Statements* applies. IAS 27 is modified so that it now deals only with the treatment of subsidiaries in the parent's individual financial statements.
- 3.57. Under IFRS 10, an NHS body 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 NHS body's involvement with the investee, i.e. there does not need to be a formal financial investment in the entity.
- 3.58. Power over the investee occurs where the NHS body has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the organisation's returns from the investee.
- 3.59. If the NHS body determines that an entity is a subsidiary then it consolidates the subsidiary in accordance with IFRS 10. The body's annual report and accounts then includes both the group accounts and the individual accounts.

Presentation and disclosure

- 3.60. The principles of IFRS 10 will be applied to all entities in which the NHS body has an interest, including NHS charitable funds. Where NHS charitable funds are consolidated, the statement of financial position should present the charitable unrestricted funds, restricted funds and endowments as a single item of charitable reserves but provide an analysis and explanation of each fund.
- 3.61. Additional line items are likely to be needed in the statement of comprehensive income, statement of cash flows and supporting notes to record charitable income.
- 3.62. The primary statements and notes to the accounts should be presented with separate 'Group' and 'parent' columns. The NHS body is able to take advantage of the exemption afforded by the Companies Act to omit the statement of comprehensive income for the parent entity if it wishes. Where an NHS body 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 body and comply with the other requirements of section 408 of the Companies Act.
- 3.63. More widely, where the NHS body determines that the difference between the 'Group' and 'parent' numbers is immaterial for a particular note, the 'parent' version of that note may be omitted from the accounts but the omission and the extent of the immaterial differences should be explained in each note.

Associates (IAS 28)

- 3.64. An entity is an associate of an NHS body where the organisation has significant influence over it, and yet the entity is not a subsidiary or a joint arrangement (being a joint

operation or joint venture). Significant influence is the power to participate in the financial and operating policy decisions of the entity, but is neither control nor joint control over the policies. It is therefore, sufficient for the NHS body merely to have the power to exercise significant influence in order for the entity to be an associate, regardless of whether the power is actually used in practice.

- 3.65. Where an associate exists, the NHS body must recognise its activities through the equity accounting method in accordance with IAS 28. The use of the equity method for associates is required even where the NHS body is not already preparing consolidated accounts. Where, however, an associate is classified as 'held for sale' in accordance with IFRS 5, it shall instead be accounted for in accordance with the requirements of that standard

Joint arrangements (IFRS 11)

- 3.66. A joint arrangement is an arrangement of which two or more parties have joint control. Joint control, in turn, is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture.
- 3.67. The classification of a joint arrangement as either a joint operation or a joint venture depends on the rights and obligations of the parties to the arrangement.
- 3.68. A joint operation exists where the parties which have joint control have rights to the assets and obligations for the liabilities relating to the arrangement. Where an NHS body is a joint operator it should recognise its, or its share of, assets, liabilities, income and expenses in its own accounts.
- 3.69. A joint venture exists where the parties that have joint control have rights to the net assets of the arrangement. Where an NHS body is a joint venturer, it should recognise its investment in its group accounts through the equity method in IAS 28 (unless exempted from doing so under that standard). In its separate financial statements, the NHS body recognises its interest in the joint venture in accordance with paragraph 10 of IAS 27.
- 3.70. An NHS body's involvement in a Better Care Fund arrangement may constitute a joint arrangement under IFRS11. See also [...](#) for more detailed guidance on accounting for the BCF. **[DN – BCF Guidance to follow when approved]**

Disclosure of interests in other entities (IFRS 12)

- 3.71. From 2014-15, IFRS 12, *Disclosures of Interests in Other Entities* applies. The standard sets out disclosure requirements, including summarised financial information, for an entity's investments in subsidiaries, joint arrangements and associates. Entities who have such interests should make the required disclosures. The disclosures relating to subsidiaries will apply to NHS bodies consolidating NHS charitable funds.

- 3.72. The standard also requires disclosure of interests in unconsolidated structured entities. Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example where voting rights relate to administrative tasks only and the relevant activities are directed instead by means of contractual arrangements.
- 3.73. While IFRS 12 applies in full, NHS bodies are expected to take a proportionate approach to these disclosures and may wish to apply the aggregation principles set out in paragraphs B2 to B6 of the standard where a body has a number of interests to disclose, if applicable.
- 3.74. The body should also include disclosures for related undertakings as required by the Companies Act 2006 (section 409 and regulation 7 and schedule 4 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 – SI 2008/410).

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

- 3.75. [Where an NHS body 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 body's accounting policies.]

NHS Charities: local consolidation

- 3.76. The FReM requires that IFRS 10 Consolidated Financial Statements, is followed. Where the standard's criteria of control are satisfied, related charitable funds will be consolidated in the accounts of the individual entity. The consolidation, in both annual accounts and summarisation schedules, report core entity and Charitable Funds components of the consolidation distinctly. NHS bodies' performance outturns will be based on the core entity's results, rather than on the consolidation outturn
- 3.77. There is also a requirement for the Department to consolidate NHS Charities classified by the Office of National Statistics to the public sector. "NHS Charities" is defined by section 43 of the Charities Act 1993, and includes those where trustees are appointed by the Appointment Commission under NHS Acts.
- 3.78. NHS bodies will therefore need to distinguish between:
- Those charitable funds that fall to be consolidated in the body's own accounts by virtue of IFRS 10, and
 - Funds classified to the public sector by the ONS
- 3.79. In the rare event that a fund falls into the second category but not the first, a NHS body will be required to exclude that fund from its local consolidation, but to report financial data in respect of it to the Department to permit consolidation at the national level

- 3.80. In general, it is likely that the IFRS 10 criteria will apply to most NHS charities, if materiality considerations are met.
- 3.81. Charitable funds' balances and transactions with the linked NHS body must be identified and eliminated in local consolidations. Further, elimination data (i.e. transactions and balances with other DH group or Whole of Government Accounts (WGA) entities) will need to be submitted to the Department to permit consolidation with other bodies at the group level.
- 3.82. The charitable fund accounts themselves have been prepared to date under the Charities Statement of Recommended Practice (SORP) which is UK GAAP based. **There has been a significant change to UK GAAP and for accounting periods starting on or after 1 January 2015 there will be 2 SORPs and charities must decide whether to prepare the accounts under the Financial Reporting Standard for Smaller Entities (FRSSE) or the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).** Further, the legislative timetable for the production of the charity accounts to be submitted to the Charities Commission does not fall within the NHS accounts' timetables. NHS bodies will need therefore to arrange to make the required consolidation adjustments to (a) align the charitable funds results with those prepared under IFRS and FReM; (b) eliminate transactions and balances between the host NHS body and the related funds; and (c) obtain charitable funds data in time to meet the entity's own accounts timetables.
- 3.83. Detailed guidance on the format of the consolidated accounts and summarisation schedules will be issued separately by the relevant authorities.

International Financial Reporting Standards (IFRS)

- 3.84. The Government FReM and the Manual for Accounts 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. A 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.
- 3.85. Disclosure requirements are reflected in proforma accounts and detailed guidance issued outside this Manual.
- 3.86. International Financial Reporting Standards can be obtained from the International Accounting Standards Board (IASB) at www.ifrs.org.

Table - Standards and Interpretations – applicability to the NHS

<p>Standard/Interpretation and its objective</p>	<p>Applicability to the NHS (as prescribed by the FReM)</p>
<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>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 Manual for Accounts.</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. 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. • 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>NHS bodies (other than NHS Trusts and FTs) within the resource accounting boundary shall prepare a Statement of Comprehensive Net Expenditure (SoCNE) rather than a Statement of Comprehensive Income. NHS Trusts/FTs will prepare a Statement of</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
	<p>Comprehensive Net Income (SOCNI).</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 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 an expense, including any write-down to net realisable value.</p>	<p>Applies with interpretations re strategic reserves and certain other central government categories.</p> <p>Interpretations are unlikely to affect NHS bodies: where any inventories are considered to be “strategic” in the national context, DH should be consulted.</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>Applies with interpretations on extended content.</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>Applies in full.</p> <p>Note:</p> <p>Preparers should consult DH (CCGs to consult NHS England in the first instance) about any novel or contentious accounting policies they might propose to adopt to reflect their specific circumstances.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
	<p>Where preparers consider it necessary to adjust retrospectively for changes in accounting policies or material errors, they should first consult DH (CCGs – NHS England in the first instance) to ensure that the budgeting and Estimates implications have been properly considered.</p> <p>Additionally, 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>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>Applies in full with the following interpretation, for NHS trusts:</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>	<p>Not relevant to NHS bodies other than as referred to by IAS 18.21 regarding the rendering of services.</p>
<p>IAS 12 Income Taxes</p> <p>The objectives of IAS 12 are to specify the accounting for current and deferred tax.</p>	<p>Not relevant.</p>
<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</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</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
<p>equipment and the changes in such investment.</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 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>valuation at the end of the reporting period, that is, the option in IAS 16 to carry at cost is withdrawn, as has 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> <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>Gains on revaluation of non-current assets shall be credited to the revaluation reserve.</p> <p>Losses on revaluation shall be debited to the relevant reserve (as above) to the extent that gains have been recorded previously, and otherwise to expenditure. (But see IAS 36 <i>Impairment of Assets</i>: FReM divergence).</p> <p>Also, note that following the annual review of the useful lives of assets required by IAS 16, NHS bodies shall discuss any significant proposals to change asset lives with DH, to ensure that the budgeting implications have been considered.</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 (EUUV). 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</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
	<p>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 FreM permits the use of a depreciated historical cost basis as a proxy for fair value for assets that have short useful lives and/or low values</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>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</p>	<p>Applies in full.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
<p>provides practical guidance on the application of those criteria.</p> <p>Also see 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>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>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"> • All actuarial gains and losses shall be recognised in reserves. • 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 FReM 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>Applies in full with the following interpretations:</p> <p>Parliamentary Supply does not fall within the meaning of</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
<p>The objective of IAS 20 is to prescribe the accounting treatment for government grants and the disclosures about other government assistance.</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>government grants.</p> <p>Entities receiving a grant to fund the purchase of a specific asset should credit that grant to current year income, unless the entitlement to the asset is conditional such that the income should be deferred.</p> <p>A requirement that a grant or donated asset should be returned to the transferor contingent on some specified, future event does not in itself prevent the grant being recognised as income in the SoCNE. See table 6.2 in the FReM.</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>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 for borrowing costs.</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,</i></p>	<p>Applies in full with the following interpretations:</p> <p>Borrowing costs in respect of qualifying assets held at fair value shall be expensed.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
<i>restoration & similar liabilities</i>	
<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>Applies in full with the following interpretations:</p> <p>NHS 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>NHS 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>NHS bodies should note the amendment to IAS 24 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>
<p>IAS 26 Accounting and Reporting by Retirement Benefit Plans</p> <p>The objective of IAS 26 is to provide guidance on the</p>	Not applicable

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
<p>form and content of the financial statements prepared by retirement benefit plans.</p>	
<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>Also see:</p> <p>SIC 12 <i>Consolidation – special purpose entities</i></p>	<p>Applies in full, except for the following divergences:</p> <p>The Department and its Executive Agency will only consolidate interests in other entities where:</p> <ul style="list-style-type: none"> • the other entity is also within the resource accounting boundary; and • the parent entity exercises in-year budgetary control over the entity. <p>Even so, there is an exemption if both bodies are consolidated by an ultimate parent. If either of the above conditions for consolidation are not met, the interest shall be shown as an investment (see IAS 39).</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>The Standard applies in full to ALBs.</p> <p>The Department and any agencies will follow FReM and apply IAS 28 without adaptation only where investments are classified to the private sector and rest of the world by ONS. Otherwise, the interest shall be shown as an investment (see IAS 39).</p>
<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>	<p>Unlikely to be relevant.</p>
<p>IAS 32 Financial Instruments: Disclosure and Presentation</p> <p>IAS 32 establishes principles for presenting financial</p>	<p>Applies in full with the following interpretation:</p> <p>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.</p>

<p>Standard/Interpretation and its objective</p>	<p>Applicability to the NHS (as prescribed by the FReM)</p>
<p>instruments as liabilities or equities and for offsetting financial assets and financial liabilities.</p> <p>Also see:</p> <p>IAS 39 <i>Financial instruments: recognition and measurement</i></p> <p>FRS 7 <i>Financial instruments: disclosures</i></p> <p>IFRIC 9 <i>Reassessment of embedded derivatives</i></p>	<p>Dividends payable on PDC should be charged in arriving at the trust's retained surplus/deficit for the year.</p>
<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>	<p>Not relevant.</p>
<p>IAS 34 Interim Financial Reporting</p> <p>IAS 34 prescribes the minimum content of an interim financial report and the principles for recognition and measurement for an interim period.</p> <p>Also see:</p> <p>IFRIC 10: <i>Interim Financial Reporting and Impairment.</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>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>Also see:</p> <p>IAS 16 <i>Property, plant & equipment</i></p> <p>IAS 38 <i>Intangible assets</i></p>	<p>Applies in full with the following adaptations as per Treasury FReM:</p> <p>Where an impairment arises from a clear consumption of economic value, 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</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
<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>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, with any excess taken to the revenue account.</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>Reversal of impairment – FReM’s adaptation of IAS 36 applies only to the 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>
<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>Also see:</p> <p>IFRIC 1 <i>Changes in existing decommissioning,</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 4 for more detail on Treasury standard discount rates)</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
<p><i>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>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>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 depreciated replacement cost.</p>
<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>Also see:</p> <p>IAS 32 <i>Financial instruments: presentation</i></p> <p>IFRS 7 <i>Financial instruments: disclosures</i></p>	<p>Applies in full with the following interpretations:</p> <p>Public dividend capital should be reported 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.</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</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
<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>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 DH 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>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>
<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>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</p>	<p>Applies. The FReM lists an interpretation: That assets are carried at a valuation to fair value as determined by relevant accounting standards.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
<p>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>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 acquisition method).</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 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 FReM.</p> <p>However, where two or more NHS trusts are dissolved and a new one established, there will be a new start, with public dividend capital set equal to the value of the net assets of the new body, as required under legislation.</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</p>	<p>Not relevant.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
such contracts (the insurer)	
<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>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>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 reporting for the exploration for and evaluation of mineral resources.</p>	Not relevant.
<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>Also see:</p> <p>IAS 32 <i>Financial instruments: presentation</i></p>	Applies in full.

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
<p>IAS 39 <i>Financial instruments: recognition and measurement</i></p> <p>IFRIC 9 <i>Reassessment of embedded derivatives</i></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>Applies in full.</p> <p>Note: Unless already provided by IFRS 8 disclosures, NHS bodies are also required to provide the following fees and charges information for each income generation activity where the full cost is over £1m or is otherwise material:</p> <ul style="list-style-type: none"> • the financial objective; • full cost; • income; • surplus or deficit; and • performance against the financial objective.
<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>ALBs should apply in full, without adaptation. For the Department and agencies, subsidiaries will be consolidated only in they are designated for consolidation (on classification by the ONS to the public sector).</p> <p>Otherwise, the Department 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>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>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
	<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>(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>Disclosure of interests in other entities is subject to the FReM adaptations to IFRS 10, IFRS 11, IAS 27 and IAS 28.</p> <p>For ALBs, the Standard is applied in full.</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>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>SIC 7 Introduction of the Euro</p> <p>The requirements of IAS 21 regarding the translation of</p>	<p>Would apply in full but not relevant at present.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
<p>foreign currency transactions and financial statements of foreign operations should be strictly applied to the changeover to the Euro.</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 not be credited directly to equity.</p> <p>Also see: IAS 20 <i>Accounting for government grants & disclosure of government assistance</i></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 case the value of the receipt will be credited to deferred income).</p>
<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>Also see: IAS 17 <i>Leases</i></p>	<p>Applies in full.</p>
<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>	<p>Not relevant.</p>

<p>Standard/Interpretation and its objective</p>	<p>Applicability to the NHS (as prescribed by the FReM)</p>
<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> <p>Also see: IAS 17 <i>Leases</i> IAS 18 <i>Revenue</i></p>	<p>Applies in full.</p>
<p>SIC 29 Service Concession Arrangements: Disclosures</p> <p>SIC 29 lists the disclosure requirements for service concession arrangements.</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>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
<p>SIC 32 Intangible Assets – Web Site Costs</p> <p>SIC-32 lays down the conditions for an entity to recognise internal web site development costs as an intangible asset</p> <p>Also see: IAS 38: <i>Intangible assets</i></p>	<p>Applies in full.</p>
<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 use of a specific asset or assets; and • the arrangement conveys a right to use the asset. 	<p>Applies in full.</p>

<p>Standard/Interpretation and its objective</p>	<p>Applicability to the NHS (as prescribed by the FReM)</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 economies</i></p>	<p>Unlikely to be relevant.</p>

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
<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>Also see:</p> <p>IAS 32 <i>Financial instruments: presentation</i></p> <p>IAS 39 <i>Financial instruments: recognition & measurement</i></p> <p>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:</p> <p>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>
<p>IFRIC 12 Service Concession Arrangements</p> <p>IFRIC 12 deals primarily with public-to-private service</p>	<p>The FReM 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</p>

<p>Standard/Interpretation and its objective</p>	<p>Applicability to the NHS (as prescribed by the FReM)</p>
<p>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>Also see: SIC 29 <i>Service Concession Arrangements: Disclosures</i></p>	<p>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 (FReM) 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 Download/IFRS section of the finman website.</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 requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received, the entity shall determine</p>	<p>Potentially relevant where NHS bodies have pension assets and liabilities for staff who remain in a Local Government Pension Scheme.</p> <p>FReM Chapter 12 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 FReM)
<p>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 pays dividends to its owners.</p>	Applicable.

Standard/Interpretation and its objective	Applicability to the NHS (as prescribed by the FReM)
<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.

<p>Standards issued or amended but not yet adopted in FReM</p>	
<p>IFRS 9 Financial Instruments</p>	Application required for accounting periods beginning on or after 1 January 2018, but not yet adopted by the FReM: early adoption is not therefore permitted.
<p>IFRS 14 Regulatory Deferral Accounts</p>	Not yet EU-endorsed. Not applicable to NHS bodies.
<p>IFRS 15 Revenue from contracts with</p>	Application required for accounting periods beginning on or after 1 January 2017, but not yet adopted by the FReM:

customers	early adoption is not therefore permitted.
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4. Financial Statements and Notes

Introduction

- 4.1. This chapter addresses 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 organisation-type specific information will be appended to this and other chapters of the manual where guidance is CCG or NHS Trust specific.

Statement of Comprehensive Net Expenditure (SoCNE) / Income (SOI)

Administration and programme expenditure analysis

- 4.2. The consolidated DH group must analyse revenue and expenditure as administration or programme, although for some entities expenditure is deemed to be wholly programme (e.g. NHS Trusts).

Gains and losses on transfers by absorption

- 4.3. The general structure of the SoCNE is given in the example accounts formats. A notable departure from IAS 1 formats is the presentation of gains or losses arising from transfers (of assets and liabilities) by absorption. Where these occur, the counter-entry to the SoFP addition/reduction in asset values is a credit to realised income in the year (gain) or a charge to expenditure (loss). These items are shown in the SoCNE below net operating costs, but before “other comprehensive income”. They thus impact on the performance of the entity for the year.

Income

- 4.4. IAS 18, *Revenue*, applies, and the classification of types of income is shown in the example accounts format. Vote-funded entities must distinguish between Parliamentary Funding and income: it is possible for entities 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.

- 4.5. Income and expenditure (in addition to the analysis by category required by the group account) must be analysed by intra-group or intra-WGA counter-party to permit consolidation. More detail is given on the “finman” website to assist with the ‘Agreement of Balances’ (AoB) process.
- 4.6. As noted above, 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.

Partially completed treatments spells and maternity pathway transactions

- 4.7. Partially completed treatment spells can pose practical difficulties, particularly between commissioners and providers of healthcare. Both parties should consider the terms of the contracts that they have entered into to determine how revenue should be recognised in accordance with IAS 18, *Revenue*.
- 4.8. 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.
- 4.9. 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.
- 4.10. 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. An [entry on the “finman” website](#) dated 14 March 2014 outlines the issues and suggests appropriate accounting treatments.
- 4.11. It is of course essential that both parties share information to ensure consistent income and expenditure entries across the group.

Government grants (IAS 20) and donations

- 4.12. 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.

- 4.13. 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.
- 4.14. Credits arising from receipt of grants and donations are taken to the SoCNE/SOCI

Statement of Financial Position (SoFP)

- 4.15. IAS 1, *Presentation of Financial Statements*, refers. The content and format of the SoFP is set out in HM Treasury's [Department Yellow](#) example format and reflected in the example accounts published by DH. The example accounts format specifies the required analysis of property, plant and equipment (PPE) and intangible non-current assets by category of asset.
- 4.16. Assets and liabilities must be analysed as "current" and "non-current" on the face of the SoFP. IAS 1 provides the following definitions:
- 4.17. An asset shall be classified as current when it satisfies any of the following criteria:
- it is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle
 - it is held primarily for the purpose of being traded
 - it is expected to be realised within twelve months after the end of the reporting period, or
 - it is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period.

All other assets shall be classified as non-current.

- 4.18. A liability shall be classified as current when it satisfies any of the following criteria:
- it is expected to be settled in the entity's normal operating cycle
 - it is held primarily for the purpose of being traded
 - it is due to be settled within twelve months after the end of the reporting period, or

- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

All other liabilities shall be classified as non-current.

4.19. 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.

Statement of Changes in Taxpayers Equity (SoCTE)

4.20. The relevant standards are IAS1, *Presentation of Financial Statements*, and IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Points to note on the example accounts format:

- “Release of reserves to SoCNE” shows transfers that are required e.g. on disposal of available-for-sale assets where earlier revaluation gains have been taken to the revaluation reserve
- “Reserves eliminated on dissolution” should be used only by those bodies involved in mid-year reconfigurations. It allows bodies closing before 31 March to reflect the disposal of their net assets and elimination of reserves in the period. Bodies that have merged mid-year should use this line to make adjustments for any reserves that have been eliminated as part of the merger.

“Transfers between reserves” include those:

- between the revaluation reserve and retained earnings, for the excess of current cost depreciation over the depreciation amount that would have been charged on a historic cost basis
- from the revaluation reserve to retained earnings where there is disposal of an asset with a balance in the revaluation reserve, or
- from the revaluation reserve to retained earnings in respect of “economic” impairments charged to the revenue account.

Statement of Cash Flows (SoCF)

4.21. 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*. Points to note on the example accounts format:

- Amounts must be shown gross. This is very important for receipts and repayments of loans and PDC (where relevant), to enable DH reconciliations

- Non-cash elements of the operating surplus are now eliminated on the face of the Statement of Cash Flows
- “Net foreign exchange gains/(losses)” are those arising during the year. It does not include gains/losses accruing on the restatement of cash and cash equivalents at the end of the year (see below)
- “**Rental proceeds**” is cash received under rentals recognised the “Investment Revenue” Note, that is:
 - normal planned rentals under finance leases where the NHS trust is the lessor, and
 - PFI contingent rental revenue where the NHS body sub-leases a PFI asset and where annual charges are increased by the full uplift in RPI each year.
- “**Other capital receipts**” includes government grants and donations from NHS charitable funds, to buy non-current assets
- “**Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies**”. This is the gain/loss on the restatement of year end cash and cash equivalent balances using foreign exchange rates ruling at the year end. This, plus the foreign exchange gains and losses, above, will equal the total “gain/loss on foreign exchange” in the “other gains and losses” note

4.22. **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.

Notes to the Accounts

See also the example accounts for suggested formats for presenting notes to the accounts.

Note - Accounting policies

- 4.23. The relevant standards are IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. Points to note:
- NHS bodies must use the accounting policies given in Note 1 of the example accounts. This enables DH to prepare valid consolidated financial statements. Alternative policies are only allowed where indicated in the example accounts
 - An individual policy should be omitted from the note if it has no material application in the entity.

4.24. Extra information must be included where necessary to give a true and fair view.

Note - Pooled budgets [DN to be aligned with BCF guidance and disclosures]

- 4.25. 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](#) refers. Points to note:
- Inclusion of a pooled budget note in the accounts is optional;
 - When involved in a joint operation, a NHS body must bring only its share of the transactions and balances of the arrangement to account. Where cash is held in a “pooled budget”, each party must bring its own share of that cash to account (i.e. one partner may hold cash on behalf of another, but each will bring a proportion of that cash to account).

Note - Operating segments

- 4.26. 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 earn revenues and incur expenses (including revenue 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.
- 4.27. 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.
- 4.28. The amounts reported for each operating segment should be the amounts reported to the CODM. Only those elements of cost, revenue, assets and liabilities that are used by the CODM for the purposes of allocating resources and measuring performance should be given. **[DN NHSE to advice on whether BCF is to be treated as an operating segment]**
- 4.29. The example accounts operating segments note is an example only: alternative formats can be used.

Note - Income generation activities

- 4.30. There is no relevant accounting standard: this note is a Treasury requirement.

4.31. 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.

Note - Revenue

4.32. The main relevant standard is IAS 18, *Revenue*. Points to note are under the following headings:

- **Education, training and research** includes income under contracts with DH from centrally held budgets and Health Education England
- **Charitable and other contributions to expenditure** is the total of all grants and other non-exchequer money received in support of the revenue activities of the entity, including transfers from grant deferred income. Where a contribution to expenditure is received in the form of a benefit in kind, the value of the benefit should be disclosed here and under the appropriate operating expenses line
- **Non-patient care services to other bodies** covers income from the provision of services such as laundry, pathology, payroll, internal audit, training, to bodies both within and outside the NHS
- **Income generation** is any income from non-patient-care activities that are designed to create surplus income, such as car-parking
- **Rental revenue** is the total revenue (normal and contingent) from operating leases where the body is the lessor. It also includes contingent rent from finance leases, but not from sub-leasing PFI where the annual payment increases annually by the full uplift of RPI. Guidance on this subject is given in Annex 4 to this chapter
- **Other revenue** is any income not chargeable to the above headings, such as staff payments for use of cars provided by the body, and income received directly from the Department of Health for non-patient care services. It also includes, in respect of PFI schemes:
 - the release of the deferred credits for PFI "free" lifecycle items
 - the release of deferred credits in respect of balances relating to schemes funded principally by third parties
 - the element of the unitary payment received from sub-lessee entities in respect of services

Guidance on these is in the document "Accounting for PFI under IFRS", which is in the download/IFRS section of the finman website.

Note - Revenue

- 4.33. The relevant standard is IAS 18, *Revenue*, paragraph 35(b).
- 4.34. Gross accounting is the default position for NHS bodies unless the transaction is of a non-trading nature and an organisation is deemed to be acting solely as an agent. In some circumstances, where each party agrees the accounting treatment and the sums involved, it may be appropriate to report net expenditure where entities share or jointly incur expenditure as opposed to entering into inter-authority trading transactions.

Note - Operating expenses

- 4.35. (The analysis will vary by types of entity, and immaterial items may be combined in accounts, but not in summarisation schedules). The relevant standards are IAS 1, *Presentation of Financial Statements*, paragraph 99 and IFRS 7, *Financial Instruments: Disclosures*, paragraph 20(e).
- 4.36. The cost of services provided under PFI schemes should be shown under relevant headings. Operating lease rentals (normal and contingent) and finance lease contingent rentals (but not PFI contingent rentals where the annual unitary payment increases by the whole of RPI each year) should be included under the relevant heading. See [Annex 4](#) to this chapter. Points to note:
- **Services from other NHS bodies** should be used only when services cannot be allocated to other expense lines. Recharges should be shown under the operating expense heading to which the recharge relates rather than under these headings
 - **Purchase of healthcare from non-NHS bodies** includes private patient care bought by the entity, and expenditure on healthcare from Scottish, Welsh and Irish health bodies
 - **Chair & Non Exec Directors/lay Governing Body Members (to be excluded from Employee Benefits)** records the allowances paid to the Chair, non-executive directors or lay Governing Body members. These are not included under employee benefits
 - **Employee Benefits** records all NHS body employee benefits, excluding any costs that are capitalised. It equals, and is recorded on the same basis as, the figure for non-capitalised employee benefits on the Employee Benefits Note. When staff are employed on research and development activities, include their cost here rather than under the "Research and development" line.
 - **Supplies and services - clinical** is current expenditure on supplies and services for clinical use. It includes expenditure on occupational and industrial therapy materials, drugs, medical gases, dressings, X-ray equipment, and blood. It also includes expenditure under related maintenance contracts.
 - **Supplies and services - general** is current expenditure on such things as cleaning equipment, materials and external contracts; food and contract

catering; hardware and crockery; and staff uniforms, patient clothing, laundry and bedding and linen.

- **Consultancy services** records spending on management consultancy. Please see [Annex 5](#) for a detailed description of what should be included here.
- **Establishment** is current expenditure on administrative expenses such as printing and stationery, advertising and telephones.
- **Transport** includes all transport-related current expenditure, such as vehicle insurance, fuel, maintenance equipment, materials and external contracts.
- **Premises** includes current expenditure on rates, electricity, gas and furnishings and fittings.
- **Provision for impairment of receivables** should include 18.9% of accrued injury cost recovery (ICR) revenue to reflect the average value of claims withdrawn, as advised to DH by the Compensation Recovery Unit. Where a provider has evidence of its specific rate of withdrawal, that figure should be used instead. Further guidance on ICR can be found on the “finman” site at <http://www.info.doh.gov.uk/doh/finman.nsf/4db79df91d978b6c00256728004f9d6b/a47831c49cbf5c23002569ba003aaaae?OpenDocument>.
- **Other auditor’s remuneration:** This excludes any internal audit costs, where not provided by an external auditor. Companies (Disclosure of Auditor Remuneration and Liability Agreements) Regulations 2008, as amended by the Companies Act (Disclosure of Auditor Remuneration and Liability Agreements) (Amendment) Regulations 2011 require, in addition to the audit fee, disclosure of non-audit fees across detailed headings. For consolidation purposes, DH collects details as analysed below, but NHS bodies will wish to consider fuller accounts disclosures in line with the Regulations:
 - audit fee for associated companies
 - taxation services
 - IT services
 - internal audit services
 - valuation and actuarial services
 - litigation services
 - recruitment and remuneration services
 - all other services

(See Appendix for further CCG guidance).

- **Clinical negligence** is the entity’s contribution to the NHS Litigation Authority.
- **Research and Development:** where research and development expenditure can be separated from patient care activity, it should be recorded here but the

cost of staff employed on R&D activity should be included under “Other Employee Benefits” rather than here.

- **Other** includes movements of provisions for emissions made under the EU Emissions Trading Scheme and compensation paid to cover debt recovery costs under the Late Payment of Commercial Debts (Interest) Act 1998. It does not include Interest on late payment of commercial debt, which is recorded under “Finance Costs” on Note 14.

Note - Operating Leases

4.37. 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*.

4.38. 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.

Note - Employee benefits

4.39. This note is a requirement of the Companies Act 2006, section 411. IAS 19, *Employee benefits*, is relevant. Points to note:

- The figures exclude non-executive directors/ lay Governing Body Members but include executive board members/Governing Body Members and staff recharged by other NHS bodies. The total (after deduction of capitalised staff costs) will equal that for “employee benefits” in the expenses note which excludes all non-executive directors’/lay Governing Body Members’ costs and any staff costs that have been capitalised
- Permanently employed staff – this is staff directly employed by the entity and includes staff on outward secondment or on loan to other organisations. The recovery of the cost of these staff should be netted off only where the transaction is deemed to be non-trading in nature and where the organisation is acting solely as an agent and does not gain any economic benefit from the transaction.
- The “Other” column includes those on inward secondment or loan from other organisations, agency staff and those engaged on a contract to undertake a project or other temporary task. It does not include amounts payable to contractors for services, that is, where the staff remain under the control of the contractor
- “Salaries and wages” exclude termination benefits (redundancy payments) and the value of non-monetary benefits
- “Social security costs” is the total of the employer’s national insurance contributions net of statutory maternity pay deductions

- “Employer contributions to NHS Pension Scheme” does not include early retirement costs
- “Other pension costs” includes early retirement costs and pension costs to non-NHS schemes, such as a local government scheme
- A line has been provided for “other post-employment benefits”, although NHS bodies are unlikely to have anything to record. IAS 19 gives the examples of post-employment life insurance and medical care
- Termination benefits will include redundancy payments, MARS and compensation for loss of office.

Note - Ill health retirements

4.40. The number of people retired on ill health grounds and the associated additional accrued pension liabilities should be disclosed. Further information and guidance on completion of this note will be issued at year-end on the “finman” website.

Note - Pension costs

4.41. The relevant standard is IAS 19, *Employee Benefits*. A standard pensions’ disclosure note is provided each year by NHS BSA and this is made available on the ‘finman’ website.

Note - Better Payment Practice code – measure of compliance

4.42. 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 creditors 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.

Points to note:

- 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>.

Note - The Late Payment of Commercial Debts (Interest) Act 1998

4.43. The Late Payment of Commercial Debts (Interest) Act 1998 allows entities to claim interest on the late payment of debts by contracting partners.

Note - Investment revenue

- 4.44. The relevant standards are IAS 17, *Leases*, IAS 18, *Revenue*, paragraph 35(b), IFRS 7, *Financial Instruments: Disclosures*, paragraphs 20(b) and (d).
- 4.45. **PFI contingent rental revenue** is the contingent rent received under a PFI sublease under which the annual payment increases by the whole RPI uplift each year. See [Annex 4, Lease Accounting Entries](#), below.
- 4.46. **Other finance lease revenue** is the finance cost element of finance leases where the entity is the lessor.
- 4.47. **Other loans and receivables** include the interest element of finance leases where the entity is the lessor.
- 4.48. Where any financial asset has been impaired (directly or through the “provision for impairment of receivables” account) any investment revenue receivable (e.g. interest; unwinding of discount on long-term financial asset) should be disclosed under “impaired financial assets” in this note.

Note - Other gains and losses

- 4.49. The relevant standards are IAS 1, *Presentation of Financial Statements*, paragraph 98(c) and (d), and IFRS 7, *Financial Instruments: Disclosures*, paragraph 20. Realised overage should be included as a gain on disposal of property.
- 4.50. Guidance on financial instruments is given in [Annex 3, Financial Instruments](#), below.

Note - Finance costs

- 4.51. The relevant standards are IAS 23 *Borrowing Costs* and IFRS 7, *Financial Instruments: Disclosures*, paragraph 20(b)
- 4.52. Interest on loans includes interest payable on loans received under the capital loans and deposits scheme.
- 4.53. 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.
- 4.54. Interest on late payment of commercial debt must equal the amount disclosed in the note “The Late Payment of Commercial Debts (Interest) Act 1998.
- 4.55. Other interest expense includes “interest on early retirements payable over five instalments”.

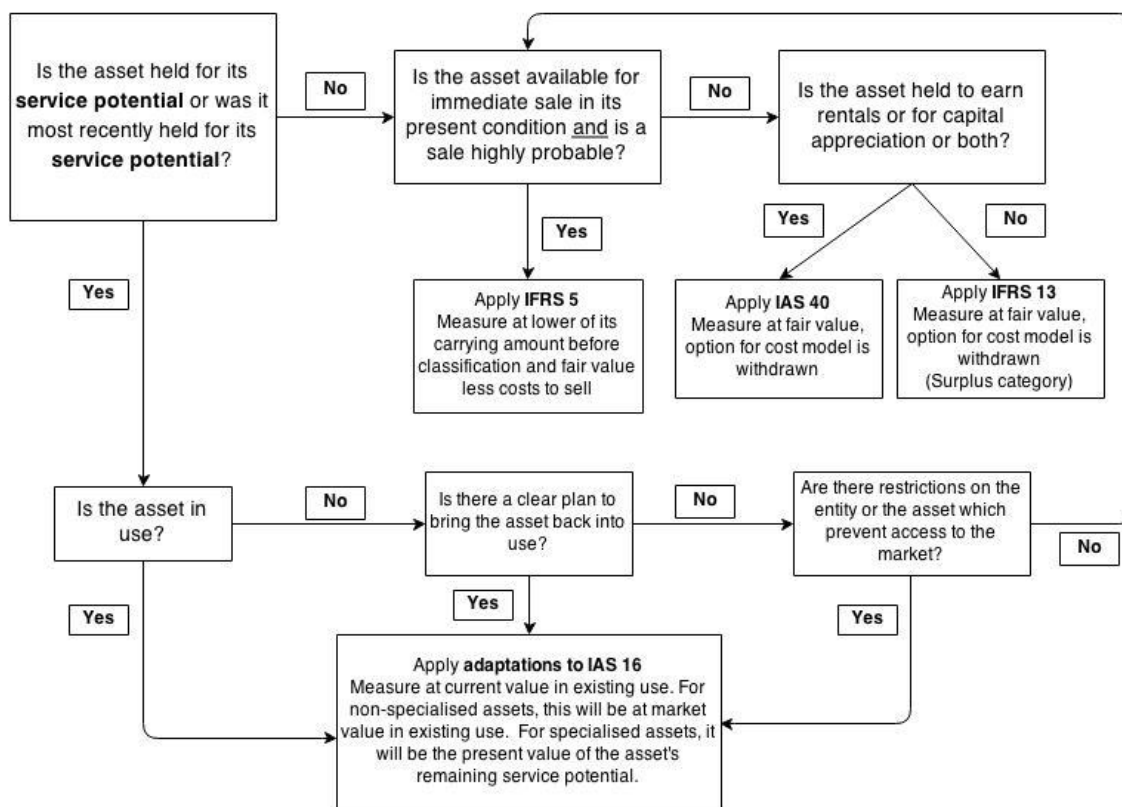
- 4.56. Other finance costs include unwinding of the discount on provisions and the net finance cost of non-NHS pension schemes (see [Annex 2, Accounting for Defined Benefit Pension Schemes](#)).

Note - Property, plant and equipment

- 4.57. 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. [Annex 7, Valuation Issues](#), discusses revaluation issues in the NHS context.
- 4.58. From 2015-16 IFRS 13 Fair Value is adopted in full; however, IAS 16 and IAS 38 have been adapted and interpreted for the public sector context to limit the circumstances in which a valuation is prepared under IFRS 13.
- 4.59. 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.
- 4.60. 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).
- 4.61. 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.
- 4.62. 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.
- 4.63. In determining whether 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.
- 4.64. 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.
- 4.65. 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.

4.66. In summary:

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



- 4.67. The example accounts format provides the categorisation of PPE into the required headings.
- 4.68. Asset transactions between NHS bodies must be dealt with as non-cash transfers, accounted for under the absorption accounting methodology (where these are in connection with a transfer of functions or “machinery of Government” change).
- 4.69. Disposals by sale do not feature in this note as assets are reclassified as “non-current assets held for sale” before the sale.
- 4.70. Charges on properties will result in the property being included in this note if the conditions of IFRIC 12 (as adapted by the FRoM) 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.
- 4.71. Points to note for the headings to columns on the Note are:
- **Land** includes land underlying buildings. Land underlying or associated with dwellings should be separately disclosed.
 - **Dwellings** are buildings used entirely or primarily as residences. Include any associated structures, such as garages, and parking areas.
 - **Assets under construction** include contributions of land and cash to PFI and LIFT schemes until the property is made available to the entity.

- **Transport equipment** is equipment for moving people and/or objects, for instance cars, ambulances.
- **Information technology** relates to hardware used for processing data and communications. Where purchased software is integral to the operation of hardware, for example operating system software, the cost should be capitalised as part of that item of property, plant and equipment.
- **Reclassifications** are the movement of assets from one category to another within the entity. The most likely occurrence is from assets under construction to buildings, on completion of construction.
- **Reclassified as held for sale.** This line removes assets from “property plant and equipment” when they become available for sale, as defined by IFRS 5.

4.72. 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”.
 - 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.** 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.
- **Impairments relate to impairment losses charged to reserves.** This includes downward revaluations.
- **Reversals of impairments** relates to increases in the value of assets that reverse earlier impairments taken to reserves.

4.73. Points to note for the depreciation section of the table:

- **Depreciation at 1 April XX** is used for opening depreciation relating to plant and machinery, transport and equipment, information technology, and furniture

and fittings. No cumulative depreciation should be carried forward for land, buildings and dwellings where these have been revalued in the period.

- **Impairments** relates to impairment losses charged to expenditure. Note the FReM adaptation of IAS 36, *Impairment of Assets*, outlined in Chapter 3. Economic losses are always taken, in full, to the SoCNE as a realised operating expense in the year, even if the revaluation reserve is in credit. This contrasts with the Standard's approach, which takes losses to the revaluation reserve in the first instance. The FReM brings the SoFP in line with one prepared under IAS 36 by requiring a subsequent transfer of a balance from the revaluation reserve to the General Fund/Retained Earnings
- **Reversal of impairments** relates to increases in the value of assets that reverse earlier impairments taken to expenditure.

Capitalisation threshold of non-current assets – de minimis limits

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

Grouped assets

4.75. "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

4.76. 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

4.77. 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.

Note - Intangible Non-Current assets

- 4.78. The main relevant standards are IAS 38, *Intangible Assets*, and SIC 32, *Intangible Assets – Web Site Costs*.
- 4.79. 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.
- 4.80. 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.
- 4.81. 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.

Economic Lives of Non-Current Assets

- 4.82. 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.

Note - Analysis of impairments and reversals

- 4.83. The relevant standard is IAS 36, *Impairment of Assets*, paragraph 130. Downward revaluations are included in impairments. However, the Treasury FReM has a public sector-specific adaptation of the Standard (see Chap 3 on IAS 36) which follows more closely the UK GAAP treatment. An impairment arising from the consumption of economic resources will be taken in full to the revenue account, whatever the state of the associated revaluation reserve. Where a balance exists on the revaluation reserve, this is transferred to the General Fund / Retained Earnings Reserve (the transfer being equal to the lower of: (a) the amount charges to expense as impairment and (b) the balance remaining on the revaluation reserve that relates to the asset).
- 4.84. Price/market movement impairments should be taken to the revaluation reserve, to the extent that a balance on that reserve exists. The revaluation reserve should not show a negative balance.
- 4.85. More detailed guidance and definitions on the components of this note is issued separately as part of summarisation schedule completion guidance.

Note - Investment property

- 4.86. The definition of investment property in IAS 40, *Investment Property*, applies. The property is held “to earn rentals or for capital appreciation, or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes: or (b) sale in the ordinary course of business.

Note – Capital and Other Commitments

- 4.87. For capital commitments, the relevant standards are IAS 16, *Property, Plant and Equipment*, paragraph 74(c) and IAS 38, *Intangible Assets*, paragraph 122(e).
- 4.88. Other commitments (excluding leases, PFI and LIFT) under non-cancellable contracts are also shown.
- 4.89. IAS 16 (para 74c) and IAS 38 (para 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.

Note - Intra Government and other balances

- 4.90. This note is a FReM requirement. Intra-government balances are defined as balances between the reporting entity and other bodies within the boundary set for the whole of government accounts. Details of this boundary and a full list of public corporations and trading funds are available on the Treasury website (in the counter-party identifier (CPID) list at: http://www.hm-treasury.gov.uk/wga_guidance_centralgov.htm)
- 4.91. The disclosure should be analysed between:
- balances with other central government bodies
 - balances with local authorities
 - balances with NHS Bodies
 - balances with public corporations and trading funds
 - balances with bodies external to government .The current/non-current totals must agree to the current/non-current totals at Receivables and Payables Notes.

Note - Inventories

- 4.92. 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.
- 4.93. Work-in-progress is the value of items in the process of manufacture. It does not include partially completed episodes of healthcare.

Note - Trade and other receivables

- 4.94. 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.
- 4.95. 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.

Note - Receivables past their due date but not impaired

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

Note - Provision for impairment of receivables

- 4.97. 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.
- 4.98. Amount written off during the period refers to receivables written off that were included in the provision. When included in the provision the entries would have been:

Dr SoCNE/SoCI
Cr Provision for impairment of receivables

At write-off, the entries are:

Dr Provision for impairment of receivables
Cr Receivables

- 4.99. “Amount recovered during the year” refers to income received in respect of receivables that were included in the provision. When included in the provision the entries would have been:

Dr SoCNE/SoCI
Cr Provision for impairment of receivables

At write-back, the entries are:

Dr Provision for impairment of receivables
Cr SoCNE/SoCI

And, (on payment):

Dr Cash
Cr Receivables

Note - Other financial assets

4.100. The relevant standards are :

- IFRS 7, Financial Instruments: Disclosures, paragraph 8,
- IAS 32, Financial Instruments: Presentation,
- IAS 39, Financial Instruments: Recognition and Measurement, and
- IFRIC 9, Reassessment of Embedded Derivatives.

4.101. Guidance on financial instruments is given in [Annex 3, Financial Instruments](#). Financial assets carried at fair value through profit or loss includes embedded derivatives.

Note - Other current assets

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

4.103. EU Emissions Trading Scheme allowances should be included here when they are expected to be realised within twelve months of the end of the reporting period. Further guidance on accounting for EU ETS can be found at [Annex 3](#).

Note - Cash and cash equivalents

4.104. The relevant standard is IAS 7, *Statement of Cash Flows*.

4.105. 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.

4.106. The figure for “Current Investments” should capture only cash equivalent balances that fall within the definition in IAS 7: “Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value”.

4.107. There should be no “cash equivalents” balances included in the lines for cash at GBS and cash at bank and in hand, notwithstanding that some cash-equivalents may be held in commercial bank accounts.

Note - Non-current assets held for sale

4.108. 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.

Note - Trade and other payables

4.109. The relevant standard is IAS 1, *Presentation of Financial Statements*, paragraph 77. Payables to Devolved Administration health bodies should be treated as non-NHS.

Note - Other liabilities

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

4.111. The “PFI asset – deferred credit” line reflects free lifecycle items and balances relating to schemes funded principally by third parties. Guidance on these is in the document “Accounting for PFI under IFRS” on the download/IFRS section of the finman website.

4.112. Pension liabilities (non-NHS scheme) should be included under “Other”.

Note - Borrowings

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

4.114. Bank overdrafts include any cash balances that are negative in the entity’s books, regardless of whether there is a formal overdraft with the bank.

4.115. Guidance on PFI lifecycle costs is given in “Accounting for PFI under IFRS”, which is available on the Download/IFRS section of the finman website.

Note - Other financial liabilities

4.116. The relevant standard is IFRS 7, *Financial Instruments: disclosures*, paragraph 8 (e).

4.117. Guidance on financial instruments is provided at [Annex 3, Financial Instruments](#).

Note - Deferred income

4.118. This note tracks movements in deferred income balances.

Note - Finance lease obligations (as lessee)

4.119. 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*.

4.120. 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.

4.121. 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.

4.122. 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”.

4.123. A general description of significant lease arrangements should also be included in this note.

Note - Finance lease receivables (as lessor)

4.124. 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*.

4.125. 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.

Note - Provisions

4.126. The relevant standard is IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. IAS 19, *Employee benefits*, is also relevant.

4.127. “Other” includes provisions for emissions under the EU Emissions Trading Scheme.

4.128. 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.

4.129. 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 published by DH. In addition, the timing of expected cashflows determines the current & non-current split required for the accounts.

4.130. 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 [Annex 6, Treasury Discount Rates](#).

4.131. 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.

Carbon Reduction Commitment Energy Efficiency Scheme (CRC)

4.132. 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.

4.133. 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>.

4.134. Points to note:

- Participation by reporting entities in the CRC Scheme gives rise to an asset for allowances held, and for a liability, which is recognised (as emissions are generated) for the surrender of the allowances to the CRC Registry;
- CRC Scheme assets are classified as either current or non-current intangible assets, or if held for the purpose of trading, as a current asset. The asset, whether classified as a current or as an intangible (current or non-current) asset shall be measured initially at cost. Allowances that are issued for less than their fair value shall be measured initially at their fair value, with the difference between fair value and the purchase price recognised as income, and
- Scheme assets in respect of allowances shall be revalued at fair value where there is evidence of an active market. Where there is no evidence of an active market, scheme assets in respect of allowances shall be measured at cost, as a proxy for fair value.

4.135. The carrying amount of the liability at 31 March 2016 will, therefore, reflect the CO₂ emissions that have been made during 2015-16.

4.136. The liability will be measured at the amount expected to be incurred in settling the obligation. Where there is evidence of an active secondary market for CRC allowances, they should be measured subsequently at fair value. If there is no evidence of an active secondary market, then the allowances should be measured at cost, less impairment.

Note - Contingencies

- 4.137. The relevant standard is IAS 37, *Provisions, contingent liabilities and contingent assets*. The likely outcome of a contingency will usually be based on legal advice, and disclosure is only required where an outflow of resources is probable, should the contingent event occur.
- 4.138. "Overage" in property transactions is a contingent asset.
- 4.139. 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.

Note - Financial Instruments

- 4.140. 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*.
- 4.141. 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.
- 4.142. 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 paragraph 7 of [Annex 3, Financial Instruments](#) for the full list of financial instruments.
- 4.143. Borrowings includes financial liabilities under PFI contracts and finance leases.

Note - Events after the reporting period

- 4.144. The relevant standard is IAS 10, *Events after the Reporting Period*. Adjusting events will be reflected in the financial statements.
- 4.145. 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.

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

Note Related party transactions

4.147. 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.

4.148. 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.

4.149. 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.

4.150. 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.

Note - Losses and special payments

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 example accounts format published by DH illustrates the contents of this disclosure. Figures recorded here are recorded on an accruals basis.

Note - Third party assets

4.151. 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 4: CCG Appendix

The following additional guidance is applicable to CCGs:

Other auditor's remuneration

1. CCG auditors undertake statutory activities under the Code of Practice that are not related to the audit of the CCG's Financial Statements (e.g. value for money work). The cost of this work should be disclosed under 'audit services', not here. Disclosure should set out the basis for such work and its nature and extent.

Performance measures

2. 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 received 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 Section 19 reports has been issued by the clinical commissioning group's auditors]

Points to Note

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 19 of the Audit Commission Act 1998.

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 4: NHS Trusts Appendix

Note - Revenue from patient care activities

1. The relevant standard is IAS18, *Revenue*. Points to note:
 - **Revenue from patient transport services** should only be included here by ambulance trusts. Non-ambulance trusts include patient transport services under “Other Operating Revenue”
 - “**Local Authorities**” includes income from them under patient care joint arrangements and for delayed discharges.
 - **Overseas visitors:** detail is required of this category of income, including impairments and write-off of receivables.
2. **Injury costs recovery (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.
3. Therefore, if it is material, 18.9% of accrued ICR revenue should be included under the “Provision for impairment of receivables” heading within operating expenses. 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.
4. “Non-NHS – other” records all income for the provision of patient care services from sources other than those detailed above, such as prescription charges, income from social care clients and income from Scottish, Welsh and Irish bodies.

Note- NHS LIFT investments

5. This note gives details of any LIFT investments held by the entity. Details of investments held at the closing Statement of Financial Position date should be disclosed in the accounts and analysed by equity shareholding and loan-stock holding.

Note- PFI and LIFT - additional information

6. The relevant standards are IFRIC 12, *Service Concession Arrangements*, SIC 29, *Service Concession Arrangements: Disclosures*, and IPSAS 32, *Service Concession Arrangements: Grantor*.
7. 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](#).

8. 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 Government Financial Reporting Manual 2015-16 and DH guidance Accounting for PFI/LIFT under IFRS on the download/IFRS section of finman.
9. IFRIC 12 applies to service concession arrangements for infrastructure assets.

Note - Recognition of assets under PPP or PFI arrangements

10. 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 [Annex 3, 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.

Note - Impact of IFRS treatment

14. 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.
15. 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

16. 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

Chapter 4 Annex 1: Pooled Budgets

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 is 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. Where the arrangement employs assets that are jointly controlled, in addition to the above, the following must be recognised:
 - the entity’s share of the jointly controlled assets (classified according to the nature of the assets)
 - its share of any liabilities incurred jointly, and
 - its share of the expenses jointly incurred.
4. 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.
5. 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
 - the cash balance remaining at year-end, even if this is held on an agency basis by a pooled budget partner (in their financial statements the cash would be a “Third Party Asset”).
6. 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.

Chapter 4 Annex 2: Accounting for Defined Benefit Pension Schemes

1. 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.
2. For NHS bodies that have staff who are members of a defined benefit pension scheme other than the NHS Pension Scheme) and where their assets and liabilities in the scheme can be separately identified. (for example, Local Government Pension Schemes) IAS 19 (revised 2011) is relevant.
3. The Standard requires:
 - that the expected return on assets and the interest cost on the defined benefit obligation are no longer calculated as separate items. Instead the discount rate is applied to the net pension liability
 - that administration costs are now generally charged to expenses as incurred, and
 - that “actuarial gains and losses” are included in the line “remeasurement of the defined benefit liability”. It continues to be presented in other comprehensive income, and although the revised standard now permits it to be recognised in a separate component of taxpayers’ equity, NHS bodies should continue to recognise it in the General Fund/Retained Earnings Reserve.
4. Where NHS bodies employ staff who are members of a Local Government Pension Scheme, it is common for the scheme to contract with an actuary on behalf of all member bodies.

Disclosures

5. IAS 19 contains disclosure requirements in respect of defined benefit pension plans. (IAS 19, paragraph 135). NHS bodies will wish to take into account materiality, particularly where there are relatively few employees belonging to such schemes. Disclosures should:
 - explain the characteristics of the defined benefit plans and risks associated with them
 - identify and explain the amounts in the financial statements arising from the defined benefit plans, and
 - describe how the defined benefit plan may affect the timing and uncertainty of the entity’s future cash flows.

Chapter 4 Annex 3: 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. DH and all NHS bodies have financial instruments. However, the accounting for basic short-term financial instruments will be unchanged by the adoption of these standards. All bodies will need to check whether they have longer-term or more complex financial instruments whose accounting may change. If so, you will need to ensure that the requirements in the standards are followed.

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)

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. The financial instrument standards are therefore expected to affect:
 - 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. These may need to be recognised for the first time
- 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. IAS 39 defines an embedded derivative as:
- “a component of a hybrid (combined) instrument that also includes a non-derivative host contract – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.”
13. 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.
14. 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

15. 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.
16. 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.
17. 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.
18. 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.
19. 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.
20. Unless clearly immaterial, DH/NHS bodies will need to review all 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). Auditors will need to see evidence of the review. Bodies

will also need to implement a system change to ensure that, in future, embedded derivatives that are not closely related are identified at the time of entering into contracts.

21. Example: An NHS Trust enters into a contract to buy a large machine from the US. The machine was built using US components and was assembled in the US. If the contract was settled in US dollars, the embedded foreign currency derivative would be closely related to the host contract and so would not be accounted for separately. However, if the contract was settled in Euros, the embedded derivative would not be closely related, movements on the exchange rate with the Euro having different economic characteristics and risks from those of the host contract. If the value of the host contract was 2m Euros, the fair value of the derivative would be the difference between the 2m Euros translated at the period closing rate and the original spot rate when the contract was entered into. If the Euro spot rate when the contract was entered into was 1.48 and the period end spot rate was 1.61, the accounting treatment would be:

$$2\text{m}/1.48 = \text{£}1,351,351$$

$$2\text{m}/1.61 = \text{£}1,242,236$$

$$\text{The fair value is } \text{£}1,351,351 - \text{£}1,242,236 = \text{£}109,115$$

The accounting entries would be:

Dr: Derivatives £109,115

Cr: Gains/losses from derivatives (I&E A/c) £109,115

Financial guarantees

22. Public sector organisations may take on liabilities by issuing specific guarantees (usually for loans) and writing letters of comfort.
23. 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.
24. 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.
25. 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

26. 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

27. 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.
28. 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

29. 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.
30. 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	Derivatives (other than if a financial guarantee or a	Fair value with movements through

through profit and loss'	hedge instrument)	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

*Amortised cost is the initial value minus both principal repayments and cumulative amortisation.

31. 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

32. 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.
33. 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 are always charged to the SoCNE, not to reserves.
34. 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

35. 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 4 Annex 4: Lease accounting entries

Operating leases

1. The minimum lease payments of operating leases are recognised on a straight line basis over the life of the lease. Contingent rentals are recognised as and when incurred but IAS 17, *Leases*, requires the amount of contingent rental recognised to be disclosed each year.
2. Where the NHS body is the lessee, all of the rental expense (normal plus contingent) is recognised in the Operating Expenses Note under the relevant heading. The disclosure of the split between “normal” and contingent rent is disclosed in the relevant Note.
3. Where the entity is the lessor, all of the rental income (normal plus contingent) should be recognised in “Other Operating Revenue” under the “Rental revenue” line. The disclosure of the split between “normal” and “contingent” is picked up in the leases Note.

Finance leases

4. Since finance leases are akin to borrowing, the minimum lease payments are split between the finance cost and repayment of the borrowing. Where the entity acts as lessee, the finance cost will be recorded as a finance expense, and where the entity is lessor it will be recorded as finance income.
5. The complication is around contingent rental. As with operating leases, contingent rental is only recorded as income or expense when it is actually incurred. IAS 17 is silent on where this is recorded. Under this manual, it should be recognised in “Other Operating Revenue” – Rental revenue or “Operating Expense” against the relevant line, as appropriate.
6. There is a special case for particular PFI schemes where the annual unitary payment is increased by the whole of RPI each year (rather than a proportion) and therefore some of this RPI uplift is attributable to the finance lease element recognised. The substance of this contingent rental is a finance cost due to the way that the PFI operator sculpts its finance cost in the model. It is therefore appropriate to disclose this specific contingent rental within “Finance Costs”.

Chapter 4 Annex 5: 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.

Chapter 4 Annex 6 - Treasury Discount Rates

1. The “Green Book” is Treasury’s investment appraisal manual, and contains guidance on the use of discounting for option appraisal purposes only.
2. Treasury has set standard discount rates applicable for 31 March 2015 (below). It is expected that the new rates applicable from 31 March 2016 will be notified via a “PES” paper in December 2015.

Timing of Cash Flows	Real Rate
0 to 5 years inclusive	Minus 1.50% (previous rate: -1.90%)
6 to 10 years inclusive	Minus 1.05% (previous rate -0.65%)
Over 10 years	Plus 2.20% (unchanged)

Chapter 4 Annex 7 - 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 Treasury guidance – see 4.99 above).
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. 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).
5. 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 http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/guidance_on_asset_valuation.pdf and https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/191488/Green_book_supplementary_guidance_asset_valuation.pdf
6. 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.

7. Where DRC is used as the valuation methodology, entities should use the "instant build" approach;
8. 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 within the same geographical area 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.
9. 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.
10. 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)." (FRoM table 6.2).

Disclosure

11. Entities should:
 - 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

12. The accounting policy remains that equipment is carried at current value in existing use. 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. 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.

13. 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 4 Annex 8 - IFRIC 12 further information

IFRIC 12 Service Concession Arrangements

1. Also relevant:
 - IAS 17 *Leases*
 - SIC 15 *Operating Leases – Incentives*
 - SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*
 - IFRIC 4 *Determining whether an Arrangement contains a Lease*
 - SIC 29 *Service Concession Arrangements: Disclosures*
2. This guidance outlines the key considerations for NHS bodies that enter into PPP or PFI arrangements that meet the IFRIC 12 definition of “service concession arrangements”.

Identification of “service concession arrangements”

3. IFRIC 12 is applicable only where:
 - the infrastructure (i.e. the property) is used to deliver public services; and
 - the public sector grantor (the NHS body) controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
 - the public sector grantor (the NHS body) controls the residual interest in the asset at the end of the term of the arrangement.

Summary of required accounting – on-SoFP under IFRIC12

4. Properties that are on-SoFP under IFRIC 12 should be included in the PFI disclosures. The property will be recorded in the SoFP, together with an associated liability. The unitary payment stream is separated into: the interest element; the capital creditor repayment element; and the service element.
5. While the required accounting mirrors that for a finance lease, and techniques for apportioning the payments as above may also be the same as used for finance leases, the arrangement is not reported as a finance lease. IFRS make a distinction between finance lease arrangements and IFRIC 12 arrangements.
6. The arrangement should instead be included in the PFI disclosures, as the FReM places both PFI and IFRIC 12 arrangements within the category of Public-Private Partnerships.

Summary of required accounting – on-SoFP under IFRIC4

7. Properties that are on-SoFP by virtue of IFRIC 4 (i.e. where an IFRIC 12 service concession does not exist) should be included within the normal leasing disclosure notes.
8. Where the following conditions apply:
 - The fulfilment of the arrangement is dependent on the use of a specific asset; and
 - The arrangement conveys the right to use the asset; and
 - IAS 17 tests require the recognition of a finance lease,the NHS body will be required to account for the transaction as a finance lease. In such cases, disclosure is within the finance lease notes to the SoFP in accordance with IAS 17.

Sale of asset that subsequently requires recognition on the seller's SoFP

9. The IFRICs do not specifically address this situation, but the arrangement is similar to a “sale and leaseback” arrangement which is dealt with by IAS 17, *Leases*. This guidance therefore follows the principles set out in IAS 17.
10. The transaction is considered as a financing transaction: the seller or lessee never disposes of the risks and rewards of ownership of the asset and so should not recognise a profit or loss on the sale. Any apparent profit (i.e. the difference between carrying amount and sale proceeds) should be deferred and amortised over the lease term. (IAS 17, para 59).

New transactions funded by “s28” and “s64” grants

11. Where a grant for the purchase of a NHS asset is made in the current year, and the arrangement results in the retention of the asset under IFRIC 12 or IFRIC 4 it is important to identify the substance of the transaction.
12. Cash is granted by the NHS body to the purchaser. The purchaser then buys the asset from the NHS body, but the NHS body retains the asset on its SoFP by virtue of IFRIC 12 or IFRIC4. A circular flow of cash has taken place: from the NHS to the purchaser and then back to the NHS; and the asset has remained on the NHS body's SoFP. Assuming no “profit” or “loss” has been made (in which case the IAS 17 sale and leaseback principles outlined above come into play) the economic and accounting reality is that no substantive transactions have taken place. At the completion of the series of transactions there should be no net impact either on the revenue account or SoFP.
13. This means that there will be no expense recognised in the NHS body's SoCNE as the circular flow of cash neither generates expenditure nor a capital receipt. In this situation there is therefore no need to record the issue of a capital grant and there is no need for the Department to effect a budgetary transfer from capital to revenue.

14. While no accounting entries should therefore be made, a narrative disclosure of the nature of the transaction should be provided in the accounts.

Chapter 4 Annex 9 - Transfer by Absorption

1. IFRS 3, *Business Combinations*, does not include intra-public sector combinations within its scope.
2. Amendments to the FReM were effective from 2012-13. Transfers of non-current assets that are not connected to “machinery of Government” or transfers of functions are outside the scope of this guidance.
3. The FReM adaptation of IFRS 3 is outlined in Chapter 3 and the following paragraphs offer some practical guidance to NHS bodies.
4. The authorisation of a NHS Foundation Trust is governed by statute, and the guidance in this Annex is not applicable to the situation where a NHS Trust is authorised as a NHS Foundation Trust.

Accounting entries

5. Prior-period figures must not be restated on a transfer of functions, assets or liabilities between public sector bodies under absorption accounting.
6. Each party in a transfer will account for transactions in the period in which they fell. The “successor” does not account for any transactions carried out by the “transferor” prior to the date of transfer.
7. Where assets and liabilities transfer as part of a transfer of functions, the date of transfer will normally coincide with the date that responsibilities passed from one body to the other. Normal IFRS asset recognition criteria will apply: clearly if the transferor of functions retains control of the related assets, there may be nothing to record in this respect.
8. Where a transfer takes place in-year, or where an entity closes down mid-year, both parties record the transfer and receipt of assets and liabilities as in-year transactions. In the event of a mid-year closedown, the closing body will prepare a closing SoFP for the year showing zero entries.
9. For closure on 31 March xx, the closing body will present a full SoFP: this will include all the assets and liabilities that transfer to either a new entity or an existing successor on 1 April xx.
10. The successor body excludes the transferred assets and liabilities from its closing 31 March xx and its opening 1 April xx SoFP. It will record the receipt of the assets and liabilities as an in-year movement at the start of the new period.

11. Transfers of assets and liabilities are balanced by corresponding entries to the SoCNE as gains/losses that impact on in-year performance, but identified separately from operating costs.
12. As reserves are not transferred, it will be necessary for entities to make manual transfers between the General Fund/Retained Earnings and the Revaluation Reserve (to preserve the Revaluation Reserve value associated with a transferred asset). NHS bodies will therefore need to provide information on the associated Revaluation reserve values, as well as the carrying amount value, to the successor body.
13. Transfers of assets and liabilities must be recorded in detail, listing counter-parties, in both the Accounts and Summarisation Schedules. Accounts will need to contain meaningful narrative disclosures about the transfer event. These disclosures might fall under “events after the reporting period” if the transfers are a consequence of the dissolution of a NHS body.

Asset valuation

- 17 Assets and liabilities transferring within the DH Group, whether under transition or other functions transfer arrangements, transfer at their net book value in the transferor’s SoFP. Revaluation is not required simply because the asset is transferring: absorption accounting does not require revaluation.
- 18 However, either the transferring body or the recipient may have cause to revalue assets as in-year transactions before or after the date of transfer (e.g. within the routine valuation cycle, or where a current reduction in service potential has been identified). Any such revaluation must be accounted for as a distinct and separate exercise from the transfer itself to ensure that asset values are identical in each set of accounts.
- 19 The normal considerations on impairment apply – where a review of an asset’s service potential is required (e.g. because it has already been taken out of service) it may be necessary to recognise an impairment in the normal way. Where an asset is however still operational at the point of transfer, and the transferor has no control over its future use, the transferor should not make any assumptions about the future use of the asset. The successor body (including NHS Property Services) will carry out an impairment review when and if it considers it necessary to do so. In other words, the fact that an asset is being transferred to another part of the DH Group is not in itself a sufficient reason to impair it while it remains in use by the transferor.

