Department of Health

Department of Health Group Accounting Manual 2016-17

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Department of Health Group Accounting Manual 2016-17

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Summary of Changes

(i) For ease of reference, the key changes in this document compared to the *NHS Foundation Trust Annual Reporting Manual 2015-16* (*ARM 2015-16*) and the *Department of Health Group Manual for Accounts 2015-16* (*MfA 2015-16*) are set out below. The comparisons are to the final published documents.

(ii) Since the publication in August 2015 of the *ARM 2015-16* and the *MfA 2015-16*, an exercise has been undertaken to merge the two documents, to provide a single accounting guidance document for the whole of the departmental group, the *Department of Health Group Accounting Manual 2016-17* (*GAM 2016-17*). The table below refers to changes agreed to the content of the previous guides, rather than changes made to the structure of the document following the merger (explained below in paragraphs (x) to (xii)).

	Area of Change	***GAM* 2016-17**	***ARM* 2015-16**	***MfA* 2015-16**
Main Changes				
1.	Following the introduction of the Parliamentary accountability report in 2015-16, the details of requirements has been updated to clearly explain the options that are available to DH group bodies, and the mandatory elements of the report.	Para 2.55 to 2.59	N/A	Para 2.52
2.	The Treasury *Financial Reporting Manual (FReM)* divergence applicable to NHS foundation trusts, requiring separate director benefit disclosures under s412 of the *Companies Act 2006* has been removed. The s412 disclosures are covered by remuneration report and other disclosures.	Chapter 3 Annex 1 (IAS 24) Chapter 3 Annex 3 Para 5.71 to 5.73	Para 2.7 (table, IAS 24) Para 2.10 Para 4.47 to 4.50	Para 3.86 (table, IAS 24)
3.	The *FReM* divergence applicable to NHS foundation trusts, requiring the use of a market discount rate for the measurement of fair value of future cash flows from financial instruments, has been removed.	Chapter 3 Annex 1 (IAS 39)	Para. 5.62	Para 3.86 (table, IAS 39)
3.	The de minimus limit of £5,000 for capitalising individual/grouped assets	Para 6.26 to 6.27	Para 5.18	Para 4.74

	applies across all entities within the accounting boundary. The scope for some sectors to locally set different levels has been removed.			
Other changes				
4.	New 'Scope and Definitions' section added to Introduction, defining terms used to refer to entities following the GAM. The manual has been revised so that terms are used consistently thoughout.	Para (xiii) to (xvi)		
5.	The staff report section has been amended to reflect the inclusion of staff numbers and costs analysis being included in the annual report section rather than the accounts notes, where they are now reported as a single column.	Para 2.54	Para 2.50 to 2.51 Para 4.39 to 4.41	Para 4.50 to 4.55 Para 7.78
6.	The reference to sources of information for pension disclosure has been revised, to cover NHS Pensions Scheme, Principal Civil Service Pension Scheme as well as other disclosure requirements.	Para 5.64 to 5.66	Para 4.55 to 4.56	Para 4.41
7.	Clarification on the treatment of loans from DH.	Chapter 6 Annex 1 para 10	Chapter 4 Annex 3 Para 9	N/A
8.	Clarification circumstances under which revaluation net of VAT is permissible has been added in line with previously issued FAQ	Chapter 6, Annex 3 Para 8	Chapter 4 Annex 7 Para 7	Para 5.2 to Para 5.11

Introduction

(iii) The Department of Health (DH) and bodies within the DH accounting boundary have a statutory requirement to produce an annual report and accounts (ARA) following the end of the financial year[1]. Additionally, DH must produce a consolidation of accounts data for

[1] The Department of Health Annual Report and Accounts 2015-16 is published at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/539602/DH_Annual_Report_Web.pdf

the bodies within the accounting boundary (subsequently referenced as the "departmental accounting group", with individual entities referred to as "DH group bodies").

(iv) The departmental accounting group is defined in law by Designation Orders made under the *Government Resources and Accounts Act 2000* (GRAA)[2]. The current Order is SI 2016 No. 323, *The Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2016*[3]. The GRAA requires DH group bodies to:

- prepare such financial information in relation to the year as HM Treasury may request
- present the information in such form as HM Treasury may direct
- arrange for the information to be audited, and
- deliver the information to HM Treasury, in such manner and by such date in the next year as HM Treasury may direct.

(v) As a relevant authority, the Department of Health has the power to set the accounts direction for DH group bodies (with some exceptions, see paragraph (vi) to (ix) below). These directions require compliance with this manual, which provides specific guidance on how DH group bodies should complete their accounts within the Annual Report and Accounts Framework (see Chapter 1 paragraphs 1.1 to 1.6).

(vi) The requirements for NHS foundation trusts are set out in paragraphs 24 and 25 of Schedule 7 to the *National Health Service Act 2006*[4] (the '2006 Act'). There are three main statutory requirements for an NHS foundation trust in relation to its accounts:

- to keep proper accounts and proper records in such form as the regulator may, with the approval of the Secretary of State, direct
- to prepare in respect of each financial year annual accounts in such form as the regulator may, with the approval of the Secretary of State, direct and
- to comply with any directions given by the regulator, with the approval of the Secretary of State, as to:
  - the methods and principles according to which the accounts are to be prepared and
  - the content and form to be given in the accounts.

(vii) Monitor (operating as NHS Improvement) sets the accounts direction to NHS foundation trusts, and this will be set via the *NHS Foundation Trust Annual Reporting Manual 2016-*

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[2] http://www.legislation.gov.uk/ukpga/2000/20

[3] http://www.legislation.gov.uk/uksi/2016/323/contents/made

[4] http://www.legislation.gov.uk/ukpga/2006/41/schedule/7

17[5] (*ARM 2016-17*). Due to the merger between the *ARM* and the *MfA,* this manual is now directly applicable to NHS foundation trusts, with the exception of guidance set out in Chapter 2. Annual reporting guidance will continue to be published alongside the accounts direction in the *ARM 2016-17.*

(viii) Monitor (operating as NHS Improvement) will continue to prepare a sector-specific consolidated account that represents a sub-consolidation from the department's viewpoint, as required by paragraph 17(1), Schedule 8 to the *Health and Social Care Act 2012*[6]. It follows that financial returns submitted by NHS foundation trusts to NHS Improvement, and the submission of FT consolidated financial data by NHS Improvement to the department, must be prepared in accordance with accounting policies set out in this manual.

(ix) NHS England is required to issue accounts directions to clinical commissioning groups (CCGs) in respect of their ARA. As the accounts directions need to comply with the *GAM 2016-17*, the content of this manual is applicable to CCGs and to NHS England.

Format of the Manual

(x) The following chapters in this manual are presented in the order in which one might expect to find the content if reading the finalised ARA of the compiling entity:

- Chapter 1 provides information on the framework under which the ARA should be completed
- Chapter 2 covers the content of the annual report
- Chapter 3 presents the accounting framework
- Chapter 4 covers specific accounting policies
- Chapter 5, Chapter 6 and Chapter 7 covers the completion of the financial statements and accompanying disclosure requirements.

(xi) Additional appendices are included within this manual, to supplement the core guidance where there are additional sector specific reporting requirements. These form an integral part of the manual and are organised so as to assist in locating entity specific guidance (for example, the CCG corporate governance reporting requirements are presented in the two CCG appendices to Chapter 2).

(xii) Annexes are used in this manual to provide further specific background information on the requirements. This is designed to provide useful additional information on more complex issues for those that require it away from the main manual. These can be found after the chapter they relate to (for example, the application of asset valuation methods is explained in Chapter 6 Annex 3 *Valuation Issues*).

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[5] The *ARM 2016-17* will be published on https://improvement.nhs.uk/resources/

[6] http://www.legislation.gov.uk/ukpga/2012/7/schedule/8/enacted

Scope and Definitions

(xiii) This manual applies to entities designated for consolidation within the accounting boundary of the Department of Health (DH). These entities must follow its requirements in preparing their ARA. The Department of Health's own account and the consolidated account of the DH group are prepared directly in accordance with HM Treasury's *Financial Reporting Manual* 2016-17 (*FReM*), but the department's accounting policies are consistent with the principles of this manual. Compliance with the *GAM* by DH group bodies is intended to result in a *FReM* compliant DH group account.

(xiv) For annual reporting requirements only, NHS foundation trusts must follow the separate *NHS Foundation Trust Annual Reporting Manual 2016-17 (ARM 2016-17)*.

(xv) NHS charities must follow the relevant Charities *Statement of Recommended Practice* (SORP). The requirements of this manual only apply to the results of NHS charities where they are consolidated within the accounts of a parent NHS provider.

(xvi) For the purposes of this manual, references to entities that follow this manual are defined as follows:

- Department of Health – The core Department of Health, excluding all other group bodies
- NHS trusts, as established under Section 25 of the National Health Service Act 2006
- NHS foundation trusts, as authorised by Monitor under Section 35 of the National Health Service Act 2006
- NHS providers – All NHS trusts and NHS foundation trusts
- Clinical commissioning groups, established under Section 25 of the Health and Social Care Act 2012
- NHS England – The legal entity NHS Commissioning Board, which is also an NDPB
- NHS commissioners – NHS England and all clinical commissioning groups
- NHS bodies – All NHS providers and clinical commissioning groups
- NHS charities – Charitable entities within the DH accounting boundary, either those consolidated by parent NHS providers or independent charities consolidated directly by DH
- DH agencies – Executive agencies within the DH accounting boundary (currently only Public Health England)
- Special health authorities – Entities within the DH accounting boundary established as special health authorities
- DH NDPBs – Non-departmental public bodies within the DH accounting boundary. This includes NHS England, unless stated otherwise

- Other DH bodies – Other bodies designated for consolidation within the DH accounting boundary, including limited companies
- DH ALBs – Arm's length bodies within the DH accounting boundary, comprising DH agencies, special health authorities, DH NDPBs and other DH bodies. This includes NHS England, unless stated otherwise (Note that the *FReM* uses a different definition of arm's length bodies, which includes all bodies within a departmental group except the core department and executive agencies)
- DH group bodies – All entities designated for consolidation within the DH accounting boundary.

1. Statutory Requirements for the Annual Report and Accounts

Annual Report and Accounts Framework

1.1. In order to present a true and fair view, the accounts of the DH group must comply with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), unless directed otherwise. The main source of guidance, therefore, will be accounting standards published by the International Accounting Standards Board and supplementary guidance.

1.2. This *Department of Health Group Accounting Manual 2016-17* (*GAM 2016-17*) has been drafted to meet the requirements of the *Financial Reporting Manual 2016-2017* (*FReM*)[7]. The *FReM* is the technical accounting and annual report guide for the preparation public sector accounts (including, but not limited to, central government departments, executive agencies and arm's length bodies). The *FReM* follows IFRS and Companies Act requirements. In several important areas, the *FReM* provides interpretation and adaptation of standards to better meet Government's reporting requirements. The *FReM* also details additional disclosures for the public sector.

1.3. The *GAM* is a further interpretation of the *FReM*, providing technical guidance to DH group bodies that specifically addresses the requirements of those within this group. The *GAM* is compliant with the *FReM*, other than for specifically agreed divergences (see Chapter 3 Annex 5, *Departures from the FReM*). It is expected that those preparing Annual Reports and Accounts (ARA) will consult the *GAM* alongside the relevant accounting standards, and thereby comply with the *FReM*.

1.4. DH ALBs should additionally refer to the relevant illustrative accounts, provided by HM Treasury in supplement to the *FReM*, to ensure the ARA is presented in the correct format (see paragraph 4.9).

1.5. The Financial Reporting Advisory Board (FRAB)[8] provides independent accounting advice in respect of public sector bodies to HM Treasury. Approval is sought from FRAB on changes made to the *FReM* and to the DH group manuals (*GAM* and *ARM*) before they are published.

1.6. Departmental divergences from the *FReM* are approved by FRAB. The current list of divergences is included in Chapter 3 Annex 5, *Departures from the FReM*.

[7] https://www.gov.uk/government/publications/government-financial-reporting-manual-2016-to-2017

[8] https://www.gov.uk/government/groups/financial-reporting-advisory-board-frab

Group Accounting Manual and relationship to other guidance

1.7. The *GAM* is not an accounting textbook and does not repeat IFRS requirements where these can be applied without specific interpretation or adaptation for the DH group. The *GAM*:

- forms part of accounts directions issued to reporting bodies by the Secretary of State (SofS), by NHS Commissioning Board (NHS England) in the case of Clinical Commissioning Groups (CCGs), and by Monitor (operating as NHS Improvement) in the case of NHS foundation trusts (FTs), these after approval by SofS – see Chapter 1 Annex 1, *Accounts Directions (structure)*.
- mandates particular accounting treatments where standards permit a choice, to ensure consistency within the DH group
- draws attention to interpretations and adaptations of Standards set out in the *FReM*, usually repeating the required departures from Standards
- highlights specific departures from the *FReM*, as agreed with Treasury, applicable to the users of this manual
- specifies scope, contents and layout of the ARA, to ensure that these documents meet HM Treasury expectations and provide consistent data for national summaries and consolidations, and
- provides detailed accounting guidance in complex and technical areas (e.g. Private Finance Initiative (PFI) and group reconstruction) where IFRS requirements require consistent application in the NHS context.

1.8. This manual will be supplemented, as necessary, by numbered "frequently asked questions" (FAQ) updates over the course of the year. These updates will be posted to the Department of Health group accounting manual area of '.gov.uk'. All content issued in this way should be treated as having the same status as guidance issued in this manual. Users should check the www.gov.uk/dh website regularly for new guidance under 'Last Updates' and '*DH Group Accounting Manual*'.

1.9. The following items will be made available subsequent to the *GAM* being issued. These do not form part of the manual, but form part of a wider body of guidance:

- NHS Improvement issues Monthly Financial Monitoring Guidance for NHS Trusts to facilitate the completion of the monthly monitoring returns. At Q3 and Q4 this is expanded to incorporate guidance for the FMA forms which feed the accounts process. This is consistent with the *GAM* and provides a means of ensuring internal consistency of reporting across the NHS trust sector, such that figures can be reliably consolidated at the national level.
- NHS Improvement issues Monthly Financial Monitoring Guidance for NHS foundation trusts to facilitate the completion of the monthly monitoring returns. Where detailed accounting guidance is required, foundation trusts should follow this manual, to ensure consistency of reporting through the year

- DH issue accounts templates for NHS trusts that have been developed in conjunction with NHS TDA (operating as NHS Improvement), and do not form part of the NHS trust accounts direction or the *GAM*
- Monitor (operating as NHS Improvement) will issue accounts templates for NHS foundation trusts at Q4 which are optional for use and do not form part of its accounts direction and do not form part of the *GAM* (see paragraphs 4.6 to 4.11 for the full list of example accounts)
- NHS England issues a model accounts template for CCG use which does not form part of its accounts direction and does not form part of the *GAM*
- Additional guidance for CCGs is issued by NHS England on their SharePoint site
- For Month 9: Detailed completion guidance for DH summarisation schedules is also provided alongside the quarterly monitoring guidance
- HM Treasury's *Managing Public Money*, which applies to all DH group bodies.

Accounts submission and audit

1.10. A detailed accounts submission process, showing deadlines and procedures for handling statutory accounts and summarisation schedules (see paragraph below), will be provided by the relevant national bodies later in the year. Treasury Public Expenditure System (PES) papers give detailed guidance for laying Annual Reports and Accounts (ARAs) in Parliament. These papers apply primarily to government departments. Where relevant to entities that follow the *GAM*, PES requirements have been incorporated into the *GAM* or will be included in this Manual's FAQs.

1.11. Summarisation schedules are the method by which the responsible authorities collect underlying accounts data. The collections allow the sector sub-consolidations and the DH group consolidation to be completed. The content within the summarisation schedules must also be compliant with this manual, and be consistent with the entity's own ARA. The term "summarisation schedule" will refer to all of the following, unless otherwise stated:

- The Department of Health Accounts Consolidation Schedule for DH ALBs
- The NHS trust Financial Monitoring and Accounts (FMA) form
- The NHS foundation trust consolidation (FTC) form
- NHS England CCG_CSU template.

Changes in Entity Status – Reporting Requirements

1.12. DH group bodies should familiarise themselves with the additional reporting requirements arising from changes in their status during the financial year. Multiple reports may be required in circumstances where group bodies are newly created, undergo mergers, change status (such as NHS trust to NHS foundation trust, or special health authority to non-departmental public body), or are dissolved during the financial year.

1.13. Generally speaking, in situations where changes occur, the following additional requirements will apply:

- Change in status from NHS trust to NHS foundation trust (i.e. upon authorisation as an NHS foundation trust) will require two ARAs, one for the NHS trust to the date of the change, and one for the foundation trust from the date of the change. The same applies for changes in ALB status.
- Newly established entities will create an ARA from the date of their establishment. This applies regardless of whether the establishment of the new entity occurred as a result of two (or more) entities dissolving to form a new entity.
- Where entities are dissolved, they will need to produce an ARA up to the date of their dissolution. This applies regardless of whether there was a successor body (e.g. as a result of two entities dissolving to form a brand new entity), or whether the dissolution occurs as a result of a takeover of services by another entity.

1.14. Full reporting requirements are described in Chapter 1 Annex 3, *Reporting requirements on change of status*.

Chapter 1 Annex 1 - Accounts Directions (structure)

Entity	Determination by:	Legislation Accounts Direction made under:	Approved by:
Department of Health (own accounts and group consolidation)	HM Treasury	Government Accounts and Resources Act 2000, s. 5: Resource Accounts Preparation and s. 7 Other Departmental Accounts	HM Treasury
NHS England (including commissioning sector sub-consolidation)	Department of Health (Secretary of State) (SofS)	Health and Social Care Act 2012 c. 7 Schedule 1 s.16: Annual Accounts	HM Treasury
Monitor (own accounts and NHS foundation trust sub-consolidation)	Department of Health (SofS)	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	HM Treasury
NHS trusts	Department of Health (SofS)	NHS trust accounts National Health Service Act 2006 c. 41 Schedule 15: Preparation of annual accounts	HM Treasury
NHS foundation trusts	Monitor	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	Department of Health (SofS)
CCGs	NHS England	Health and Social Care Act 2012 c. 7 Schedule 2 s.17 CCG Annual Report Directions (Chapter A1 of Part 2 of the National Health Service Act 2006 as amended by 14Z15 of the Health and Social Care Act 2012 Reports by clinical commissioning groups).	Department of Health (SofS)
DH ALBs	Department of Health (SofS)		HM Treasury

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

1. This guidance relates to DH group bodies required to lay their annual report and accounts (ARA) before Parliament. This includes NHS foundation trusts, DH agencies, special health authorities, DH NDPBs, including NHS England, and the core department, but does not apply to NHS trusts, clinical commissioning groups, consolidated limited companies or NHS charities.

Statutory requirement

2. Entities falling within the sectors referred to in paragraph 1 of this annex are required to lay their ARA, with any report of the auditor on them, before Parliament. Guidance on the form and content of the annual report is included in Chapter 2 of this manual (except for NHS foundation trusts). For NHS foundation trusts, the *ARM 2016-17* sets out the format of a foundation trust annual report. This should include the quality report together with the limited assurance opinion on this report.

3. The ARA laid before Parliament must include the full statutory accounts and not summarised information and must be one document.

4. Once laid before Parliament the content of the ARA cannot be changed. If preparing a "glossy" annual report and accounts, this should be the final version, including all graphics. Entities have the discretion, after laying the document before Parliament, to publish a condensed performance report with supplementary material in lieu of local publication of the full ARA. Further guidance on supplementary material can be found in Chapter 2, paragraph 2.62 to 2.64 of this manual (or in the *ARM 2016-17,* as applicable).

5. Until the ARA has been laid before Parliament, nothing can be published.

The process of laying papers before Parliament

6. To prepare the report for laying before Parliament, entities must follow the strict rules on the format. These are set out in the following paragraphs and in the guidance for laying papers in the House of Commons Journal Office document *Guide to laying papers (May 2016)*[9]. Please note that the Journal Office guidance is aimed at government departments as well as organisations such as NHS bodies. The physical act of laying the report before Parliament can only be undertaken by the Department of Health Parliamentary Clerk, who will also arrange for laying letters to be prepared.

7. The submitted ARA will be bound together in a series of reports by the House authorities and will be stored in perpetuity. It is therefore very important that reports are produced in the correct format for laying in Parliament. Reports that are not in the correct format will

[9] http://www.parliament.uk/documents/upload/laying-papers.pdf

not be accepted for laying and you may be required to undertake re-printing. In particular, please note the following requirements:

- the ARA that each entity lays before Parliament must be one document. It might be that this is formed from two electronic files but the final PDF and bound hard copies must be presented as one document
- the report must be predominantly A4 portrait in layout (tables etc. may be in landscape orientation but printing the whole document in landscape is not allowed, even if paper is bound along the long side)
- the report must be securely bound. It should be saddle stitched (stapled through the spine) or perfect bound (glued into the cover). For NHS foundation trusts only, comb or spiral binding is acceptable but presentation in a ring binder or any other variation of stapling is not
- the report must have a front and back cover and title page
- the front and back cover must be a normal paper/card cover, not plastic or transparent. There must not be a plastic cover on the document
- the title page is page 3 (the front cover is page 1 and the reverse of the front cover is page 2) and is the first inside facing page of the document. The title page should contain, in the following order:
  a) the full statutory name of the entity, and
  b) the title of the document (e.g. Annual Report and Accounts 2016 to 2017), and
  c) (1) ***NHS foundation trusts***: the wording "Presented to Parliament pursuant to Schedule 7, paragraph 25 (4) (a) of the National Health Service Act 2006", or
  c) (2) DH ***ALBs***: include the relevant wording under which the entity is required to present accounts before Parliament – "Presented to Parliament pursuant to Schedule WW, paragraph XX (Y) (Z)of the 'insert name of applicable Act of Parliament'" and underneath "Ordered by the House of Commons to be printed on xx month year" followed by the HC number
- copyright text should be added to the bottom of the reverse of the title page, in font size 10pt or above: ©(year) (Trust Name) NHS Foundation Trust
- the copyright text for DH ALB reports must be in accordance with guidelines from The National Achives
- in the rare case where an entity has changed its name after the end of the reporting period, the statutory name of the entity (point a) should be the name that was in place at the end of the reporting period. If, for example, the entity changes its name on 1 April 201x, an extra line should be included on the title page "From 1 April 201X now known as…",
- the title of the document must be the same on the front cover as on the title page. The title must reflect the contents of the document, e.g. 'Annual Report and Accounts 2016/17'. Additional wording on the front cover (such as a short slogan) is

permissible but this must be less prominent and not allowed to be confused with the title of the document

- the title page must not be combined with a contents page, preface, or contain any other text or images
- the font used on the front cover and title page should be a reasonable size and not too small: at least 10pt
- the reverse of the front cover, the reverse of the back cover, and the reverse of the title page, must all be kept blank, except for the copyright text on the reverse of the title page
- the back cover must contain no substantive text.

Deadlines for laying documents before Parliament

8. All ARAs must be sent to arrive at the Parliamentary Relations Unit to allow sufficient time for laying before the Parliamentary summer recess. The timetable for submission will be confirmed at a later date. Laying reports in good time before the Parliamentary recess ensures that there is opportunity for appropriate Parliamentary scrutiny. ARAs will be welcomed for laying before the submission date. It is the responsibility of the entity to ensure its ARA is laid.

How to arrange the account to be laid before Parliament

For NHS foundation trusts

Step 1 You must check that the format of your report is acceptable before printing the final copies of the report. Please send a PDF copy of the report with your full contact details (email address and direct telephone number) to MB-SI@dh.gsi.gov.uk. In the subject line, please give the name of your entity and the words "for checking". Before sending, make sure you can answer 'yes' to all the points in the checklist at the end of this note. You will receive a response to confirm that the format is acceptable and you can then proceed with printing. Given this is a check that the format is correct, this should be provided in advance of the deadline specified below.

Step 2 When your ARA is ready to be laid and it has been confirmed that the format is correct, you must send five bound copies to:

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The Parliamentary Clerk
Department of Health
Room 402
Richmond House
79 Whitehall
London, SW1A 2NS

On the package label, please clearly state the name of your entity and also include a named contact, telephone number and email address, in case of queries. Please also make sure that the package is secure so that it is not damaged in the post.

You must also email a final PDF of the report to be laid to the Department of Health Parliamentary team mailbox MB-SI@dh.gsi.gov.uk. In the subject line, please give the name of your entity and the words “final version”. Your report will not be laid until this PDF has been received.

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

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

For DH ALBs

11. Once you have arranged a suitable laying date contact the Journal Office in the House of Commons to obtain a House of Commons (HC) number for your report. To request an HC number you should email journaloffice@parliament.uk with the words “HC Number Request from” followed by the name of the organisation in the subject header. You should indicate in the body of the email the date on which you intend to lay the document. If your request is urgent please contact the Journal Office on 020 7219 3361/3318. If the expected date for laying changes you should inform the Journal Office. Please also notify DH Parliamentary of the intended laying date.

12. You will also need to contact Williams Lea the Print Vendor Partner contractor (email: HMGpublishing@williamslea.com) about producing and distributing your document, although you can produce and print your document yourselves it is often easier to engage the services of Williams Lea as they can ensure that the document is correctly formatted for laying purposes and arrange for distribution of copies to DH Parliamentary and Parliament. If you chose to produce the document in-house then you will need to follow the formatting guidance as laid down in the Guide to laying papers and ask the Journal Office to check the formatting

13. Once correctly formatted and printed, arrange for 5 laying copies to be sent to DH Parliamentary Relations Unit, ideally by the day before for formal laying before Parliament.

Checklist of publishing formatting requirements

Make sure you **can answer 'yes'** to each question below.

If the **answer is "no"** to any question below, your report is likely to be **rejected for laying**.

Note there are different requirements for NHS foundation trusts and Arms Length Bodies

	FT	ALB
Is the report laid out in A4 (tables may be in landscape if necessary)?		
Does the report have a front and back cover made of paper or card?		
Have you ensured that there is no plastic cover on the document?		
Does the title page only contain, and in this order: a) the full statutory name of the entity; and b) the title of the document ('Annual Report and Accounts 2016 to 2017'); and c) (1) ***NHS foundation trusts***: the wording "Presented to Parliament pursuant to Schedule 7, paragraph 25 (4) (a) of the National Health Service Act 2006." (Please use Ariel 14pt for all text on the title page); or c) (2) ***DH ALBs***: include the relevant wording under which the entity is required to present accounts before Parliament – "Presented to Parliament pursuant to Schedule WW, paragraph XX (Y) (Z)of the 'insert name of applicable Act of Parliament'" and underneath "Ordered by the House of Commons to be printed on XX month year", followed by the HC number	Not Applicable	Not Applicable
Does the title page contain no other text or images?		
Does the reverse of the title page have at the bottom, in at least 10pt font: ©year (Trust Name) NHS Foundation Trust or for ALB accounts the correct copyright text		
Is the title of the document exactly the same on the front cover as on the title page and is the font size on both a reasonable size?		
Are the reverse of the front cover, the reverse of the back cover, and the reverse of the title page, all blank? (Apart from the		

copyright text on the reverse of the title page)		
Does the back cover contain no substantive text?		
Will the annual report and accounts be produced both as a single printed document and as a PDF?		
Will the printed document be perfect bound, saddle stitched, spiral bound or comb bound? (Please note that Spiral and comb binding are only accepted for NHS FT annual report and accounts)		

Please remember to clearly state the full name of the entity on the package label when sending the hard copies.

Chapter 1 Annex 3: Reporting requirements on change of status

1. This annex provides information to all users on the reporting requirements arising from a change in entity status. Entities should consult the subsection relevant to their circumstances. Not all of the guidance included in this annex will apply to every entity. Information on the accounting treatment of such changes in status can be found in Chapter 4, paragraphs 4.69 to 4.87.

Changes to NHS trusts

Attaining NHS foundation trust status

2. The trust is responsible for reporting its financial position for the period it was an NHS trust both prior to and post its authorisation as an NHS foundation trust in accordance with the national timetable issued by NHS Improvement. It is important that all trusts (including those subject to mid-year transactions) adhere to the national timetable.

3. The trust should ensure that there are adequate resources available post authorisation to continue to provide NHS Improvement with robust monitoring information until the financial year end in accordance with the national timetable.

4. The trust should also ensure that there are robust arrangements in place to respond promptly to any queries arising as a result of the reporting requirements or ad hoc queries in respect of the period prior to authorisation.

5. Further guidance regarding the completion of summarisation schedules and practical issues on change of status is issued by NHS Improvement and will be updated regularly to reflect any changes. For the equivalent requirements on transition to foundation trust status, see paragraphs 16 to 22 below.

NHS trusts in their final period of operation

Preparation of ARA

This section does not apply where an NHS trust is authorised as an NHS foundation trust, covered in the separate section outlined in paragraphs 2-5 above.

6. Where an NHS trust ceases to exist during or at the end of a financial year, the ARA should be prepared for that period in accordance with this manual. An ARA should be prepared for the period from 1 April up to the date that the NHS trust ceased to exist. This date may be considered to be the day before the date cited in a transfer order and/or legislation which transfers assets and liabilities to other bodies and dissolves the trust at midnight on that date. For example, if the trust is dissolved on 1 October (at midnight), it is reasonable to prepare for the final period accounts as at 30 September, immediately prior to the outward transfers. Where 31 March is used to reference the end of the reporting period elsewhere in this manual, it should be replaced with the date at which the accounts are being prepared. The final period ARA should be submitted in line with the *DH Group Annual Report and Accounts Plan 2016-17 (national timetable)*.

7. When an NHS trust ceases to exist and its services, assets and liabilities are transferring to one or more NHS bodies or the Secretary of State, one of the receiving bodies will assume responsibility for the preparation of the final period ARA. Where the transfer and closure occurs significantly earlier than 31 March, the receiving body may wish to prepare the final period accounts in advance of the deadlines described in the *DH Group Annual Report and Accounts Plan 2016-17*. However, the annual report and accounts can only be finalised once the post-consultation *GAM* for that year has been issued. The receiving body will also be asked to provide a later "Events after the Reporting Period" confirmation to NHS Improvement for the purposes of the consolidated trust accounts and the whole of government accounts.

8. The chief executive of the nominated receiving body referred to in the paragraph above will be required to take on the role of accounting officer for this final period annual report and accounts. The chief executive should ensure he or she is able to obtain the necessary assurances to enable them to make the required declarations.

9. NHS trusts are reminded to refer to Chapter 4, paragraphs 4.89 to 4.93, which set out how the going concern concept is adapted for the public sector. This definition will continue to apply to the final period ARA.

Practical arrangements for annual reports and accounts

10. The requirement in Schedule 15 of the *National Health Service Act 2006*[10] that an NHS trust's ARA must be presented to trust board does not apply to the final period as the trust board will no longer exist when the ARA for the final period is prepared. Instead it will be presented to the successor NHS body's board.

11. A public meeting must be held by the successor body by 30 September following the end of the financial year in which the NHS trust ceased to exist. The NHS trust's ARA for its final period of operation must be presented.

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

12. The transfer of assets and liabilities to receiving NHS bodies will be accounted for under absorption accounting as set out Chapter 4 of this manual. The date at which the final period accounts are prepared may be immediately prior to the outward transfer, as envisaged by paragraph 6 of this annex. In this case the outward transfer has not yet happened and so will not be reflected in the accounts, except as an event after the reporting period. In the final period accounts the SoFP will record the final balances prior to outward transfers (i.e. will not be nil).

13. The NHS trust summarisation schedules (FMAs) will still be prepared as at 31 March (and 31 December). If the summarisation schedules are prepared as at a date after the outward transfer and the closure of the trust, the summarisation schedules will have a nil

[10] http://www.legislation.gov.uk/ukpga/2006/41/schedule/15

statement of financial position, with the closing balances written out as a transfer by absorption.

14. Chapter 4 sets out the disclosure requirements for transfers by absorption. In addition to these requirements, in the final period accounts the trust should disclose details of the outward transfers and dissolution of the NHS trust as part of its disclosure of events after the reporting period. This disclosure should include summary information showing to which receiving bodies the assets and liabilities in the SoFP have been transferred. Totals of non-current assets, current assets, current liabilities, non-current liabilities and net assets should be presented as a minimum. For example this may be presented as follows:

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

Other establishment, merger and dissolution guidance

15. For further information regarding the requirements for NHS trusts involved in proposed dissolutions and mergers, including requirements for disclosure of management information and completion of accounts summarisation schedules, refer to additional guidance issued by NHS Improvement.

NHS foundation trusts in their first period of operation

16. NHS trusts attaining foundation trust status should also consult the requirements outlined in paragraphs 2 to 5 above.

17. When an NHS trust is authorised as an NHS foundation trust, an ARA must still be published for the final period of the NHS trust's existence. This may cover a full financial year where the change in status occurs on 1 April or a shorter period where the change in status occurs during the financial year. NHS foundation trusts will be required to prepare the final accounts and summarisation schedules for the predecessor NHS trust and meet the deadlines set by the Department of Health and NHS Improvement. NHS foundation trusts should be aware that auditors may require the NHS trust accounts to be prepared in accordance with the NHS foundation trust deadline, where earlier, in order for the auditor to issue their report on the NHS foundation trust accounts as the opening balances of the foundation trust are provided by the closing balances in the NHS trust accounts.

18. A public meeting must be held by 30 September following the end of the financial year in which the NHS foundation trust was authorised at which the predecessor NHS trust's ARA for the final period of NHS trust status must be presented.

19. The ARA and summarisation schedules for the final period of NHS trust status must be prepared in accordance with this manual. Two separate sets of ARAs for the final NHS trust period and first period as an NHS foundation trust must be prepared.

20. Where an NHS foundation trust is authorised from 1 April, there is no requirement to include prior year comparatives for the Statement of Comprehensive Income (SoCI), Statement of Changes in Taxpayers' Equity (SoCTE) and Statement of Cash Flows (SoCF). However, the opening Statement of Financial Position (SoFP) should be included in the accounts and some supporting notes will have to include an opening balance. The note for mid-year authorised NHS foundation trusts in the FTC, issued by NHS Improvement, is also required to be completed. These should be drawn up in accordance with the provisions of this manual.

21. Where an NHS foundation trust is authorised part way through a financial year, two part-year sets of accounts are required. The first part-year accounts in respect of the predecessor NHS trust should be prepared in accordance with the *GAM* as applicable to NHS trusts. The second part-year accounts in respect of the NHS foundation trust must be prepared in accordance with this Manual as applicable to NHS foundation trusts. Opening balances for the SoFP and related notes as at the date of the NHS foundation trust's establishment should be disclosed but no other comparatives are required. These should be drawn up in accordance with the provisions of this manual.

22. An NHS foundation trust which is authorised part way through a financial year will show only part year comparatives against its full year results in its second year of operation. The difference in accounting periods should be explained in a narrative note to the accounts.

NHS foundation trusts in their final period of operation

Preparation of annual report and accounts

23. Where an NHS foundation trust ceases to exist during or at the end of a financial year, the ARA should be prepared for that period in accordance with this manual. The ARA should be prepared for the period from 1 April up to the date that the NHS foundation trust ceased to exist. This date may be considered to be the day before the date cited in a transfer order and/or legislation which transfers assets and liabilities to other bodies and dissolves the trust at midnight on that date. For example if the trust is dissolved on 1 October (at midnight), it is reasonable to prepare for the final period accounts as at 30 September, immediately prior to the outward transfers. Where 31 March is used to reference the end of the reporting period elsewhere in this manual, it should be replaced with the date at which the accounts are being prepared. The final period ARA should be submitted in line with the *DH Group Annual Report and Accounts Plan 2016-17*.

24. When an NHS foundation trust ceases to exist and its services, assets and liabilities are transferring to one or more NHS bodies or the Secretary of State, one of the receiving bodies will assume responsibility for the preparation of the final period ARA. Where the transfer and closure occurs significantly earlier than 31 March, the receiving body may wish to prepare the final period accounts in advance of the deadlines described in the *DH Group Annual Report and Accounts Plan 2016-17*. In any case, the ARA can only be finalised once the post-consultation *ARM* and *GAM* for that year has been issued. The receiving body will also be asked to provide a later “Events after the Reporting Period” confirmation to NHS Improvement for the purposes of the consolidated foundation trust accounts and the whole of government accounts.

25. The chief executive of the nominated receiving body referred to in paragraph 24 of this annex will be required to take on the role of accounting officer for this final period ARA. The chief executive should ensure he or she is able to obtain the necessary assurances to enable them to make the required declarations.

26. NHS foundation trusts are reminded to refer to Chapter 4 of this manual, which sets out how the going concern concept is adapted for the public sector. This definition will continue to apply to the final period ARA.

27. Where an NHS foundation trust in special administration has ceased to provide services and its provider licence has been revoked during the year but the entity continued to exist at the end of the financial year, it remains that foundation trust’s responsibility to prepare an ARA for the year and have them audited. The ARA will be prepared for the full financial year and should be prepared in accordance with the requirements of this manual. It is likely that such a shell organisation will have arrangements in place with another entity (probably a receiving body for its former services) to prepare the ARA on its behalf, but it is the accounting officer of the now unlicensed foundation trust who will certify the ARA.

Practical arrangements for annual reports and accounts

28. The requirement in paragraph 28, Schedule 7 of the *National Health Service Act 2006*[11] that an NHS foundation trust’s ARA must be presented to the council of governors does not apply to the final period ARA. This is because the council of governors for that NHS foundation trust will no longer exist when the final period ARA is prepared.

29. The requirement in paragraph 25(4a), Schedule 7 of the *National Health Service Act 2006* that an NHS foundation trust’s ARA should be laid before Parliament will continue to apply. This responsibility will fall to the receiving body referred to in paragraphs 24 and 25 of this annex. Where the foundation trust continues to exist but is unlicensed at the end of the financial year, that foundation trust is responsible for ensuring the ARA is laid before Parliament, although this may be performed with the support of another organisation as envisaged by paragraph 27 of this annex.

[11] http://www.legislation.gov.uk/ukpga/2006/41/schedule/7

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

30. The transfer of assets and liabilities to receiving NHS bodies will be accounted for under absorption accounting as set out Chapter 4 of this manual. The date at which the final period accounts are prepared may be immediately prior to the outward transfer, as envisaged by paragraph 23 of this annex. In this case the outward transfer has not yet happened and so will not be reflected in the accounts, except as an event after the reporting period. In the final period accounts the SoFP will record the final balances prior to outward transfers (i.e. will not be nil).

31. The summarisation schedules (i.e. the foundation trust consolidation schedules, or FTCs) will still be prepared as at 31 March (and 31 December). If the summarisation schedules are prepared as at a date after the outward transfer and the closure of the trust, the summarisation schedules will have a nil SoFP, with the closing balances written out as a transfer by absorption.

32. Chapter 4 sets out the disclosure requirements for transfers by absorption. In addition to these requirements, in the final period accounts the foundation trust should disclose details of the outward transfers and dissolution of the foundation trust as part of its disclosure of events after the reporting period. This disclosure should include summary information showing to which receiving bodies the assets and liabilities in the SoFP have been transferred. Totals of non-current assets, current assets, current liabilities, non-current liabilities and net assets should be presented as a minimum. For example this may be presented as follows:

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

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

33. The transfer of assets and liabilities to receiving NHS bodies will be accounted for under absorption accounting as set out in chapter 4 of this manual. In the final period accounts the SoFP will record nil balances at the year end[12]. Notes to the SoFP will record the

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

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

34. Chapter 4 sets out the disclosure requirements for transfers by absorption. In addition to these requirements, in the final period accounts the foundation trust should disclose in a note to the accounts:

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

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

Changes to Commissioning Groups

35. CCGs should follow the guidance *Procedures for clinical commissioning groups to apply for constitution change, merger or dissolution* which can be found on the NHS England website at https://www.england.nhs.uk/wp-content/uploads/2015/10/guidance-constitution-mergers-dissolution.pdf.

Changes to DH ALBs

Creation of new arm's length body

36. Newly established DH ALBs are required to complete an accounts summarisation schedule, to be submitted to the Department of Health for consolidation into the DH group accounts. DH ALBs should also complete an ARA as described in Chapter 2 of this manual, to be laid before Parliament within the indicated timeframe.

37. Where a DH ALB is established after the beginning of the financial year, it must complete an ARA up to a reporting period end of 31 March, unless the establishing legislation specifies otherwise. There is still a requirement to complete summarisation schedules with the accounting details for the standard financial year of up to 31 March. Where the annual report differs (for example with a 15-month account), the amended reporting period should be made clear.

38. Where the establishment of a DH ALB has arisen from a transfer of functions from an existing DH ALB within the DH group, and there is an associated transfer of assets, the new ALB must ensure that the disclosure requirements for transfers by absorption accounting are followed, as set out in Chapter 4 of this manual. This especially applies to the summarisation schedules as any transfers should eliminate across the DH group.

Changes in status

39. The reporting requirements are no different should an DH ALB change status (e.g. from special health authority to a DH NDPB) at the beginning of the financial year. The entity will still be required to submit accounts summarisation schedules and publish an ARA in line with this manual. There may be an additional requirement to complete an accounts summarisation schedule to clear out the closing balance from the previous financial year, although discussion should take place with DH as to whether this will be completed by the ALB, or can be done by DH.

40. Where the change in status occurs during the financial year, the DH ALB should be prepared to complete two summarisation schedules at each submission period, one showing the activity of the ALB up to the point of the change in status, and one showing the activity of the ALB from the date the status changed up to the reporting date.

41. There will still be a requirement to complete an ARA to be laid before Parliament, as outlined in Chapter 2 of this manual. ALBs should discuss the reporting requirements with DH as, depending on the change of status, there may be a requirement to complete two annual reports or use an extended first period of reporting after the change in status.

42. Should the change in status of a DH ALB be accompanied by a transfer of functions/assets from another body, the ALB must ensure the requirements of transfer by absorption are followed, as set out in Chapter 4 of this manual. This is especially important when completing summarisation schedules to ensure that any transfers occurring within the DH group eliminate on consolidation.

Dissolution of DH ALBs

43. Where a DH ALB is due to be dissolved after the end of the financial year, the ALB should following the accounting and annual reporting requirements set out in this manual, as it will be in existence at the reporting date. Arrangements should therefore be put into place to ensure that the reporting deadlines falling after dissolution can still be met.

44. DH will need to complete an accounts summarisation schedule in the next financial year to ensure the SoFP is cleared to zero, and any transfers of assets and functions are recorded correctly. The ALB should ensure that a record of balances that are transferring within the WGA boundary are made available so that DH can ensure that any transfers by absorption within the DH group can be eliminated on consolidation.

45. If dissolution is to occur during the financial year, arrangements should be made to enable subsequent summarisation schedules to be completed up to the reporting year end. Also, as described in paragraph 44 above, a record should be kept of any functions/assets being transferred within the WGA boundary to allow the accurate elimination of transfers by absorption within the DH group. Further guidance is provided in Chapter 4.

2. The Annual Report

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

Introduction

2.2. DH group bodies are required to publish, as a single document, a three part annual report and accounts (ARA):

1) The Performance Report, which must include:
   - an overview
   - a performance analysis.
2) The Accountability Report, which must include:
   - a Corporate Governance Report
   - a Remuneration and Staff Report
   - a Parliamentary Accountability and Audit Report.
3) The Financial Statements

2.3. The structure adopted here is the one described in the *FReM 2016-17*. DH group bodies may omit headings or sections where they consider that these are not relevant, but the structure of the three-part ARA outlined in this manual must be adhered to.

General Principles

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

Accounting/Accountable Officer Responsibilities

2.5. The ARA as a whole must be fair, balanced and understandable. The Accounting/Accountable Officer takes personal responsibility for it and the judgments required for determining that it is fair, balanced and understandable. NHS bodies are not required to comply with the UK Code of Corporate Governance.

2.6. The DH group body must include a Statement of Accounting/Accountable Officer's Responsibilities within the Accountability Report (see paragraph 2.27). Additionally, NHS trusts should include a Statement of Directors' Responsibilities.

2.7. The Accounting/Accountable Officer/Chief Executive shall sign and date the following within the ARA to confirm adherence to the reporting framework:

- Performance Report (see paragraphs 2.11 to 2.16 for content)
- Accountability Report, including the Corporate Governance Report/Statement (see paragraphs 2.22 to 2.30), the Remuneration and Staff Report (see paragraphs 2.31 to 2.54) and the Parliamentary Accountability Report (where applicable, see paragraphs 2.56 to 2.59)
- Statement of Financial Position (see Chapter 5).

CCG Governance

2.8. 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.

2.9. 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.

2.10. Further details regarding the application to CCGs is available in Chapter 2 CCG Appendix 1: *Additional Requirements for CCGs*, in relation to the status of CCG governing bodies, governing body members and CCG membership and members.

Performance Report

2.11. 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*[13]*.* Public entities should comply with the Act as adapted: i.e. they should treat themselves as if they were quoted companies.

2.12. Auditors will review the performance report for consistency with other information in the financial statements.

[13]As amended by SI 2013 No.1970, *The Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013*, http://www.legislation.gov.uk/uksi/2013/1970/contents/made

Overview

2.13. 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 ARA unless they were interested in further detail or had specific accountability or decision-making needs to be met.

2.14. As a minimum, the overview must include:

- a short summary explaining the purpose of the overview section
- a statement from the chief executive providing their perspective on the performance of the organisation over the period
- a statement of the purpose and activities of the organisation
- the key issues and risks that could affect the entity in delivering its objectives
- an explanation of the adoption of the going concern basis where this might be called into doubt (e.g. by the issue of a report under Section 30 of the *Local Audit and Accountability Act 2014*[14] for a CCG or an NHS provider), and
- a performance summary.

Performance analysis

2.15. The purpose of the performance analysis is for entities to provide a detailed performance summary of how their entity measures its performance, more detailed integrated performance analysis and long term expenditure trend analysis where appropriate.

2.16. 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
- compliance with mandatory sustainability reporting requirements[15]. Reporting entities are expected to report annually on sustainability matters. Mandatory reporting requirements can be met by following the standard reporting format for

[14] http://www.legislation.gov.uk/ukpga/2014/2/section/30/enacted

[15] Further guidance and support is available from the Sustainable Development Unit (SDU) at http://www.sduhealth.org.uk/delivery/measure/reporting.aspx. SDU guidance has been produced in line with general HM Treasury guidance on sustainability reporting

NHS bodies produced by the Sustainable Development Unit. It is envisaged that reporting entities will produce a report that will be integral, with reference throughout the annual report and accounts and not a separate standalone report

- performance on other matters raised during the year (e.g. in Treasury PES papers): DH will notify group bodies of such additional requirements in FAQs.

The Accountability Report

Scope of the Accountability Report

2.17. 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*[16] and Schedule 7 of SI 2008 No.410, *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008*[17], and in a Remuneration Report, as set out in Chapter 6 of the *Companies Act 2006*[18] and Schedule 8 of SI 2013 No 1981, *The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013* [19].

2.18. 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.

2.19. 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:

- disclosures on Parliamentary accountability, as detailed in paragraph 2.59
- single total figure of remuneration for each director
- CETV disclosures for each director
- payments to past directors, if relevant
- payments for loss of office, if relevant
- “fair pay” (pay multiples) disclosures
- exit packages, if relevant, and
- analysis of staff numbers and costs.

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[16] http://www.legislation.gov.uk/ukpga/2006/46/part/15/chapter/5

[17] http://www.legislation.gov.uk/uksi/2008/410/schedule/7/made

[18] http://www.legislation.gov.uk/ukpga/2006/46/part/15/chapter/6

[19] http://www.legislation.gov.uk/uksi/2013/1981/schedule/made

2.20. The Accountability Report is required to have three sections:

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

2.21. DH group bodies must provide a short overview of these sections and explain how they contribute to the entity's accountability to Parliament (where relevant) and best practice with corporate governance norms and codes.

Corporate governance report

2.22. 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.

2.23. As a minimum, the Corporate Governance Report must include:

- the directors' report (members' report for CCGs)
- the statement of Accounting/Accountable Officer's responsibilities
- the governance statement.

The directors'/members' report

2.24. The directors'/members' report must include the following, unless disclosed elsewhere in the ARA, 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 board of directors (including advisory and non-executive members) having authority or responsibility for directing or controlling the major activities of the entity during the year
- the names of the directors forming an audit committee or committees (recommended)
- the 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
- (NHS bodies) a statement to the effect that each director: knows of no information which would be relevant to the auditors for the purposes of their audit report, and of which the auditors are not aware, and; has taken "all the

steps that he or she ought to have taken" to make himself/herself aware of any such information and to establish that the auditors are aware of it.

Modern Slavery Act 2015 – Transparency in Supply Chains

2.25. The *Modern Slavery Act 2015*[20] establishes a duty for commercial organisations with an annual turnover in excess of £36 million to prepare an annual slavery and human trafficking statement. This is a statement of the steps the organisation has taken during the financial year to ensure that slavery and human trafficking is not taking place in any of its supply chains or in any part of its own business.

2.26. Income earned by NHS bodies from government sources, including CCGs and local authorities, is considered to be publicly funded and is therefore outside the scope of these reporting requirements. Where NHS bodies engage in profit-making activities, these may still be sufficient to trigger the reporting requirements. This is likely to be the case where income is earned from non-government sources, such as private patients, and where this income exceeds £36 million in total. It is ultimately for individual NHS bodies, in discussion with their auditors, to consider whether they have activities that require them to be treated as a commercial organisation for the purpose of the *Modern Slavery Act 2015*, and to produce the required statement accordingly. The Home Office have produced a practical guide on applying the reporting requirements, *Transparency in Supply Chains etc. a practical guide*[21].

Statement of Accounting/Accountable Officer's responsibilities

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

2.28. 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.

2.29. The Accounting/Accountable Officer is required to confirm that the ARA as a whole is fair, balanced and understandable and that he or she takes personal responsibility for the ARA and the judgments required for determining that it is fair, balanced and understandable.

Governance statement

2.30. In preparing the statement, the Accounting/Accountable Officer should reflect the particular circumstances in which the entity operates (NHS trusts should follow guidance

[20] http://www.legislation.gov.uk/ukpga/2015/30/contents

[21] https://www.gov.uk/government/publications/transparency-in-supply-chains-a-practical-guide

to be issued by NHS Improvement. CCGs should follow the template and guidance published via the NHS England/CCG SharePoint).

Remuneration and staff report

2.31. 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.

2.32. In addition, the report provides details on remuneration and staff that users of the accounts see as key to accountability.

2.33. The remuneration report must disclose information on those persons in senior positions having authority or responsibility for directing or controlling major activities within the group body. This means those who influence the decisions of the entity as a whole rather than the decisions of individual directorates or departments.

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

2.35. 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.

2.36. 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.

2.37. 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.

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

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

Remuneration policy

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

Remuneration of Very Senior Managers (VSMs) – CCGs only

2.40. Where one or more senior managers of a CCG are paid more than £142,500 per annum, the remuneration report must explain (not necessarily on an individual basis) the steps the CCG has taken to satisfy itself that this remuneration is reasonable. Pay for a part time senior manager should be compared against a pro rata of £142,500. For this disclosure, 'pay' should be considered to be columns (a), (b), (c) and (d) of the 'single total figure table' in the remuneration report (see Chapter 2 Annex 2).

2.41. A similar disclosure applies to NHS foundation trusts, set out separately in the *ARM 2016-17*.

Remuneration Report Tables

2.42. The tables for use as part of the remuneration report (the Single Total Figure and Pension Entitlement tables) are '*Table 1: Single total figure table'* and '*Table 2: Pension Benefits'*, reproduced in Chapter 2 Annex 2 - *Salary and Pension disclosure tables*: *information subject to audit*.

2.43. The figures relate to all those individuals who hold or have held office as a senior manager of the DH group 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.

2.44. In addition disclose:

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

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

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

Compensation on early retirement or for loss of office

2.47. If a payment for compensation on early retirement or for loss of office (paid or receivable) has been made under the terms of legislation or 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

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

Fair Pay Disclosure

2.49. Entities must disclose the following information together with prior year comparatives:

- the median remuneration of the reporting entity's staff. This is based on annualised, full-time equivalent remuneration of all staff (including temporary and agency staff) as at the reporting date
- the range of staff remuneration
- the ratio between the median staff remuneration and the mid-point of the banded remuneration of the highest paid director, and
- an explanation for any significant changes in the ratio between the current and prior years.

2.50. 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.

2.51. 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."

2.52. It should then be followed by a concise and factual explanation of the changes on either side of the ratio, taking into account where relevant:

- adjustment to the number or composition of the general workforce (e.g. through restructuring, downsizing and outsourcing)
- a change to the remuneration of the most highly paid individual. Entities should note that this may not necessarily be an increase to base pay, but a change in taxable expenses or allowances. Where the allowance is temporary (e.g. relocation allowance), entities 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)
- the impact of any pay freeze on the multiple (e.g. senior pay freeze that does not affect the majority of staff.)

2.53. 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.

2.54. 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

2.55. The staff report must include the following information:

a) Number of senior civil service staff (or senior managers) by band.

b) Staff numbers and costs – entities should provide an analysis of staff numbers and costs, analysed as in the groupings in the example accounts format but analysed by 'permanently employed' staff and 'other' staff. In this context:

- 'Permanently employed' refers to members of staff with a permanent (UK) employment contract directly with the entity
- 'Other' refers to any staff engaged on the objectives of the entity that does not have a permanent (UK) employment contract with the entity. This includes employees on short term contracts of employment, agency/temporary staff, locally engaged staff overseas, and inward secondments from other entities where the whole or majority of the employees' costs are met locally.
- In addition, DH only is expected to provide a further breakdown of benefits incurred under two additional categories (ministers and special advisors).
- The figures should exclude non-executive directors/ lay Governing Body Members but include executive board members/Governing Body Members and staff recharged by other DH group bodies.
- To note: Staff on outward secondment should not be included in the average number of employees.
- In allocating employees to functional categories for staff numbers, the employee definitions should be those in the Information Centre's *Occupational Code Manual*[22]
- 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.

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[22] http://www.ic.nhs.uk/statistics-and-data-collections/data-collections/information-supporting-our-data-collections

d) Sickness absence data - NHS bodies are also required to report on staff sickness. The information is also required on the summarisation schedules for consolidation purposes and will be issued by DH after draft accounts submission.

e) Staff policies applied during the financial year:

- for giving full and fair consideration to applications for employment by the company made by disabled persons, having regard to their particular aptitudes and abilities
- for continuing the employment of, and for arranging appropriate training for, employees of the company who have become disabled persons during the period when they were employed by the company
- otherwise for the training, career development and promotion of disabled persons employed by the company.

f) Expenditure on consultancy.

g) Off-payroll engagements

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

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

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

h) Exit packages

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

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

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

Parliamentary accountability and audit report

2.56. The Parliamentary accountability and audit report is required by those entities that report directly to Parliament. It is also required in the consolidated DH annual report. Entities that do not produce a Parliamentary accountability report must nevertheless include an audit certificate and report.

2.57. DH group bodies that are not required to produce a Parliamentary accountability report may nevertheless include these disclosures within the annual report. Where an entity elects not to do this, it must include the disclosures on remote contingent liabilities, losses and special payments, gifts, and fees and charges as notes within its financial statements. For NHS trusts making use of the linked accounts template, these disclosures will be included in the financial statements.

2.58. There will be a need to collect data for the consolidated account via the summarisation schedules to assist the completion of this report. Therefore, regardless of applicability of this report, all DH group bodies must ensure the summarisation schedule is completed.

2.59. The Parliamentary Report will contain disclosures on the following (as outlined in the *FReM* Chapter 3):

	Sector			
Requirement	**DH**	**DH ALBs (inc NHS England)**	**NHS trusts**	**CCGs**
Statement of Parliamentary Supply	Mandatory	N/A	N/A	N/A
Name of public sector bodies outside boundary where department has lead policy responsibility	Mandatory	N/A	N/A	N/A
Brief description of material remote contingent liabilities (under Parliamentary reporting requirements not IAS 37) and estimate of its financial effect	Mandatory	Mandatory	Optional	Optional
An explanation of the regularity of expenditure	Mandatory	Mandatory	Optional	Optional
A statement is required if cost allocation and charging requirements set by HMT have not been complied with	Public Sector Information Holders only		N/A	N/A
A statement of losses and special payments over £300k*	Mandatory	Mandatory	Optional	Optional
Notation of gifts made over a value of £300k (per *Managing Public Money* annex 4.12 – note these require HMT approval)**	Mandatory	Mandatory	Optional	Optional

Analysis of material (>£1m) fees and charges income. This should include: 1) the financial objective(s) and performance against the objectives; 2) the full cost and unit costs charged in year; 3) the total income received in year; 4) the nature/extent of any subsidies or overcharging	Mandatory	Mandatory	Optional	Optional
Audit certificate and report***	Mandatory	Mandatory	Mandatory	Mandatory

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

*** In line with the guidance in Managing Public Money Annex 4.12, DH group bodies should report on the total value of gifts made, if this exceeds £300k, and provide details of any individual gifts over £300k. DH group bodies are not expected to make gifts in the normal course of business, and should contact their national body or DH sponsor division in the first instance.*

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

2.60. Where an entity has included the above disclosures in its annual report, it should omit the equivalent disclosure notes to the financial statements referred to in Chapters 4-7.

Publication of the Annual Report and Accounts

Entities that do not lay accounts before Parliament

2.61. DH group bodies that are not required to lay their ARA before Parliament (NHS trusts, CCGs, as described in Chapter 1 Annex 2, paragraph 1) must publish them locally, as described in the preceding parts of this chapter. NHS trusts may publish ARAs in advance of the consolidated Resource Account being submitted by DH to Parliament. CCGs should refer to Chapter 2 CCG Appendix 1: *Additional Requirements for CCGs* for further guidance.

Separate performance report overview and supplementary material

2.62. For DH group bodies that do lay accounts before Parliament there is discretion to publish a separate performance report overview and supplementary material, rather than the full ARA. These must not be published before the ARA has been laid before Parliament.

2.63. The *Companies Act 2006* refers to publishing a strategic report with supplementary material. The *FReM* has replaced the strategic report in the public sector with the performance report. For the DH group, the performance report overview section (as defined in this chapter) is the equivalent to the strategic report for these purposes.

2.64. 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 entity's ARA
- state how a person can obtain a copy of the full ARA
- state whether the auditor's report on the full ARA was unqualified or qualified and, if qualified, set out the auditor's report in full together with any further material needed to understand the qualification
- state whether, in that auditor's report, the auditor's statement as to whether the performance report: overview and directors' report was consistent with the accounts was unqualified or qualified and, if it was qualified, set out the qualified statement in full together with any further material needed to understand the qualification, and
- contain a copy of that part of the directors' remuneration report which sets out the single total figure table in respect of the entity directors' remuneration.

Chapter 2 CCG Appendix 1: Additional Requirements for CCGs

1. In addition to the requirements set out in Chapter 2, CCGs are required to publish their full ARA in accordance with arrangements notified via the NHS England/CCG SharePoint. They may additionally produce and distribute a separate Performance Report: Overview with Supplementary Material, produced in accordance with this *GAM*.

2. For CCGs the gender distribution should be analysed as follows:
    - members of the governing body
    - all other senior managers, including all managers at grade VSM, not included above, and
    - all other employees not included in either of the previous two categories.

Business information

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

Details of Members of the Membership Body and Governing Body

4. The Report must provide:
    - the member practices, forming the Membership Body, of the CCG
    - the names of the Chair and Accountable Officer throughout the financial year and up to the signing of the ARA
    - the composition of the Governing Body throughout the financial year and up to the signing of the ARA (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 ARA, and
    - reference to the Remuneration Report for details of the membership of the Remuneration Committee, and the Governance Statement for details of and membership of all other Governing Body and Membership Body Committees.

Chapter 2 CCG Appendix 2 – Pension Disclosures

Introduction

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

2. Within the NHS Pensions Scheme there are two types of member:
   - Practitioner, and
   - Officer.

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

4. In summary there are three types of medical Practitioner in NHS pension terms:
   - a type 1 medical Practitioner is a GP Provider (GP partner, single–hander) who has entered into a GMS, PMS, or APMS contract
   - a type 2 medical Practitioner is generally a salaried GP employed by a (GMS, PMS, or APMS) surgery, and
   - a Locum Practitioner is a freelance GP locum who deputises or assists on a temporary basis in a surgery.

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

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

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

8. Tables 1 and 2 which follow describe how the benefits received by the different governing body members should be disclosed.

Prior Year Comparatives

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

Table 1: Governing Body Member is a Medical Practitioner

Type of Contract	Contract of Service with individual	Contract for Service with individual	Contract with GP Practice/Surgery	Contract with Corporate Body
Employment Status	Employee	Off Payroll Worker		
Payment Route	Payroll	Accounts Payable*	Accounts Payable	
Eligible for NHS Pension	Yes			No
NHS Pension Status	Officer	Practitioner		n/a
NHS Pension Employing Authority	CCG	NHS England		n/a
Responsibility for Pension Contributions	CCG	Legal requirement on the CCG to deduct at source, as agent for NHS England	GP	n/a
Payment Method	As part of routine employee contributions to NHS Pensions	SOLO Form submitted to NHS England (PCS) together with pension payment due		n/a
Salary Disclosures	Full disclosure as per *GAM*	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 *GAM* requirement.		
Off Payroll Worker Disclosures	n/a	Include as per *GAM* guidance. Confirmation of regularity of tax arrangements and tax payments required, as per *GAM* guidance.		

Pension Disclosures	Full disclosure as per *GAM*. 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.

* *Please note that HMRC typically deem services provided directly to fulfil the role of Governing Body Member as being those of an "office holder". For payments relating to these services, the "office holder" should typically be treated as an employee, with deduction at source through the payroll for taxation and national insurance payments. CCGs should liaise with their local HMRC contact in case of query.*

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 *GAM*	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 *GAM* requirement.	
Off Payroll Worker Disclosures	n/a	Include as per *GAM* guidance. Confirmation of regularity of tax arrangements and tax payments required, as per *GAM* guidance.	
Pension Disclosures	Full disclosure as per *GAM*. 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.	

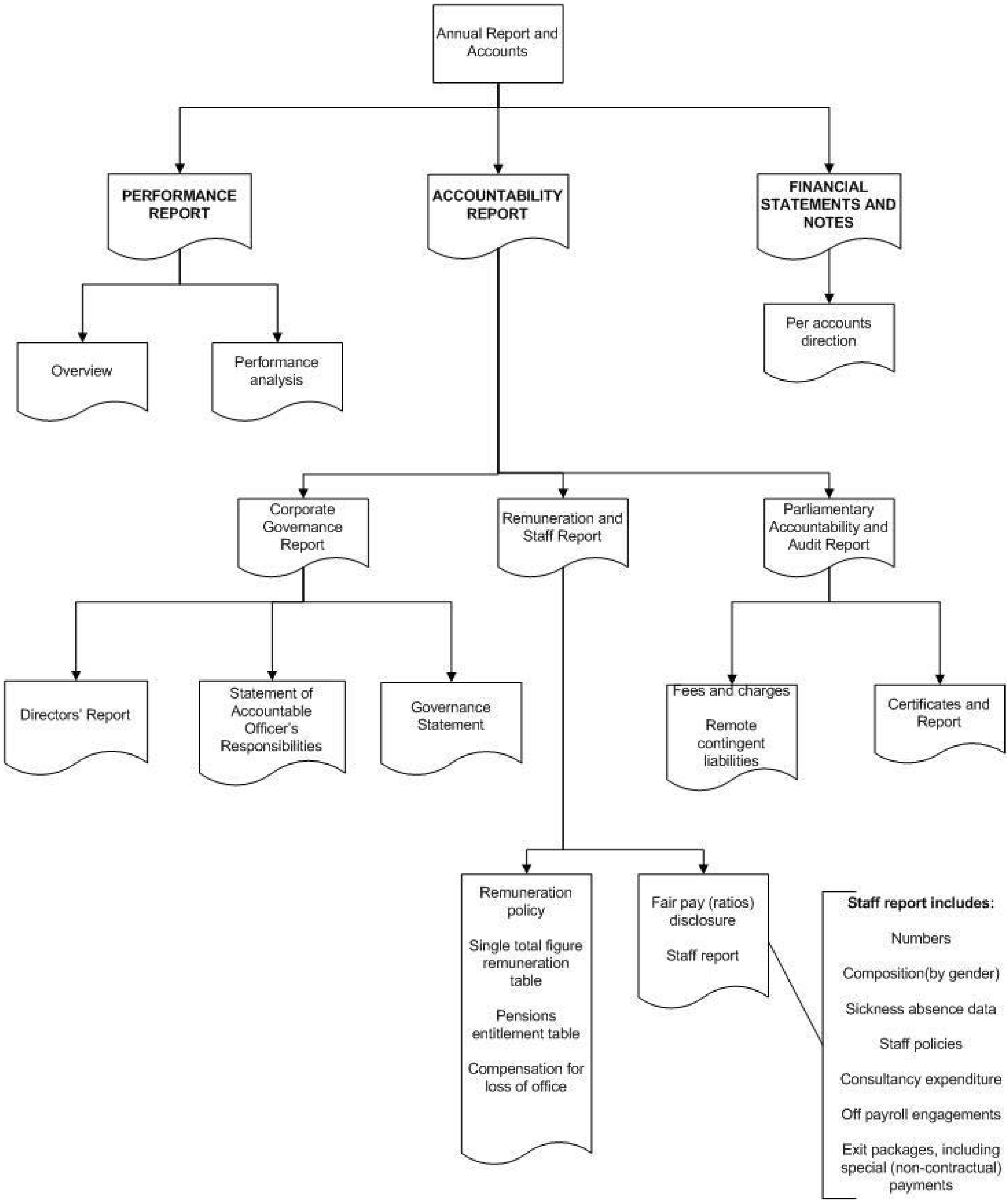
** Please note that HMRC typically deem services provided directly to fulfil the role of Governing Body Member as being those of an "office holder". For payments relating to these services, the "office holder" should typically be treated as an employee, with deduction at source through the payroll for taxation and national insurance payments. CCGs should liaise with their local HMRC contact in case of query.*

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

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

Chapter 2 Annex 1 – Annual Report and Accounts Outline Structure

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



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

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

Salaries and allowances

Table 1: Single total figure table

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

2. Provide comparative information for the prior year.

3. Disclose, for each individual, payments or compensation for loss of office, and cross-reference this to other disclosures and notes in the accounts (e.g. exit packages and non-compulsory departures)

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

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

Table 2: Pension Benefits

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

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

Cash Equivalent Transfer Values

6. A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's (or other allowable beneficiary's) pension payable from the scheme. CETVs are calculated in accordance with SI 2008 No.1050 *Occupational Pension Schemes (Transfer Values) Regulations 2008*[23].

Real Increase in CETV

7. This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Content of tables: salaries and allowances

8. The requirements of Part 3 of Schedule 8 of the *Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013*[24] are set out below. In the table in Annex X:

- column (a) is salary and fees (in bands of £5,000)
- column (b) is all taxable benefits (total to the nearest £100)
- column (c) is annual performance-related bonuses (in bands of £5,000)
- column (d) is long-term performance-related bonuses
- column (e) is all pension–related benefits
- (additional columns must also be included for any other items in the nature of remuneration - but excluding payments to former senior managers (see below))
- column (f) The final column is total of the above items (in bands of £5,000).

9. Each of the above requirements is described in further detail below.

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

Salary and other remuneration: this covers both pensionable and non-pensionable amounts. The amounts paid or payable by the entity in respect of the period the senior manager

[23] http://www.legislation.gov.uk/uksi/2008/1050/made

[24] http://www.legislation.gov.uk/uksi/2013/1981/schedule/made

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, or where a temporary director has covered another on long term absence, both must be shown, together with the date the post was started or vacated.

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

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

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

Salary includes:

- all amounts paid or payable by the entity including recharges from any other entity
- the gross cost of any arrangement whereby a senior manager receives a net amount and an entity 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 severance or ex-gratia payments.

Salary excludes:

- recharges to any other entity
- 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), and
- any amount paid which the director must subsequently repay.

Column (b): all taxable benefits (to the nearest £100 and disclosed in £s). This is the gross value of such benefits before tax. It includes:

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

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

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

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

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

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

Column (d): long-term performance pay and bonuses (in bandings of £5,000). These comprise money or other assets received or receivable for periods of more than one year where final vesting:

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

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

For every component of remuneration included in columns (c) or (d), a note accompanying the table must disclose:

- details of any performance measures and the relative weighting of each;
- for each performance measure:
  - the performance targets set at the beginning of the performance period and the corresponding value of bonus achievable, and
  - details of actual performance against the targets set and measured over the performance period and the resulting bonus awarded.

- where discretion has been exercised in the award, details of how the discretion was exercised and how the resulting bonus was determined.

Column (e): all pension-related benefits (in bandings of £2,500), including:

- the cash value of payments (whether in cash or otherwise) in lieu of retirement benefits, and
- all benefits in year from participating in pension schemes. These are the aggregate input amounts, calculated using the method set out in section 229 of the *Finance Act 2004*[25]. Paragraph 10(1)(e)(ii)(cc) of schedule 8 of SI 2013 No.1981, *The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013*[26] (update to the Finance Act 2004) requires the exclusion of any employee contributions from the figure arrived at to reach the amount which should be disclosed.

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

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

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

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

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

Content of tables: pensions

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

- the pension entitlement at the end of the year: this requirement is met by the completion of the “pensions” table, the contents of which are described below
- a description of additional benefits that will become receivable by the individual in the event that they retire early, and

[25] http://www.legislation.gov.uk/ukpga/2004/12/section/229

[26] http://www.legislation.gov.uk/uksi/2013/1981/schedule/made

- separate disclosures where the individual is a member of more than one scheme.

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

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

Payments for loss of office

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

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

Payments to past senior managers

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

- payments for loss of office (which are separately reported above)
- payments that are otherwise shown in the single total figure table
- payments that have already been disclosed by the entity in a previous remuneration report

- payments for regular pension benefits that commenced in a previous year, and
- payments for employment or services provided by the individual other than as a senior manager of the entity.

Chapter 2 Annex 3 – Exit packages and severance payments

Introduction

1. Tables 1 and 2 provide detail about payments on termination of employment with table 2 dealing with non-compulsory redundancies. These additional disclosures are required to strengthen accountability in the light of public and Parliamentary concern about the incidence and cost of these payments. Both notes are shown below.

2. It is important that entries in tables 1 and 2 are consistent with related disclosures in (a) the Remuneration Report and (b) the Losses and Special Payments Note. Thus, where entries here relate to individuals listed in the Remuneration Report, there must be a separate disclosure in the Remuneration Report listing details of the individuals' severance payments (whether compulsory or voluntary). Similarly, the Losses Statements must be consistent with those listed here under "special non-contractual payments".

Non-compulsory departures

3. This note discloses the number of non-compulsory departures which attracted an exit package in the year, and the values of the associated payment(s) by individual type.

4. The note is prepared on the same basis as table 1 i.e. showing the exit packages agreed in the year, irrespective of the actual date of accrual or payment.

5. The total value in this note should agree with the Total Resource Cost for Other Departures Agreed in table 1. However, there are likely to be differences in the component numbers as table 1 relates to the number of individuals receiving an exit package while this note gives the number for each component. As a single exit package is likely to be made up of several components each of which will be counted separately, the total number is likely to be higher than the number of individuals.

6. Contractual payments relating to individual contractual entitlements are to be disclosed in the following categories:
   - voluntary redundancies including early retirement costs (the cost to be used must include any top-up to compensation provided by the employer to buy out the actuarial reduction on an individual's pension)
   - mutually agreed resignations (MARS)
   - early retirements in the efficiency of the service and payments in lieu of notice (contractual)

7. Exit payments made following an Employment Tribunal or court order are also included. Any such payments are considered contractual as the orders have to be paid by the party against whom the order is made, although may relate to compensation for loss of office.

8. Non-contractual payments are those made outwith contractual or legal obligation, including those from judicial mediation. Pre-authorisation from the HM Treasury (or the

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

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

Table 1: Exit packages

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

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

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

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

Table 2: Analysis of Other Departures

	Agreements Number	Total value of agreements £000s
Voluntary redundancies including early retirement contractual costs		
Mutually agreed resignations (MARS) contractual costs		
Early retirements in the efficiency of the service contractual costs		
Contractual payments in lieu of notice*		
Exit payments following Employment Tribunals or court orders		
Non-contractual payments requiring HMT approval**		
Total		**A – agrees to total in table 1**

As a single exit package can be made up of several components each of which will be counted separately in this Note, the total number above will not necessarily match the total numbers in Note xx which will be the number of individuals.

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

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

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

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

Chapter 2 Annex 4 – "off-payroll" engagements

Introduction

1. A Treasury requirement for public sector bodies to report arrangements whereby individuals are paid through their own companies (and so are responsible for their own tax and NI arrangements, not being classed as employees) has been promulgated e.g. in PES guidance. Treasury's guidance on this is summarised below.

2. Payments to GP practices for the services of employees and GPs are deemed to be "off-payroll" engagements, and are therefore subject to these disclosure requirements.

Inclusion in Annual Reports

3. DH group bodies must include the disclosures set out below within the within the staff report section of their ARA (or within the financial statements if they wish, but if so, clearly signposted from the staff report). There is no requirement to have the disclosure audited (although inclusion in the financial statements will bring the disclosure into the scope of audit), and DH will not require information for consolidation purposes from NHS trusts, NHS foundation trusts and CCGs.

4. DH will, however, disclose comparable figures in respect of its own core business, and consolidated figures from DH ALBs, together with a note that individual DH group bodies are required to make disclosures in the remuneration report section of their ARA. DH group 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 2000*[27].

Guidance

5. Following the *Review of the tax arrangements of public sector appointees* published by the Chief Secretary to the Treasury on 23 May 2012[28], 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 the remuneration report section of their ARA DH group bodies should present the data described below in the following sections.

Existing off payroll engagements

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

[27] http://www.legislation.gov.uk/ukpga/2000/36/contents

[28] https://www.gov.uk/government/publications/review-of-the-tax-arrangements-of-public-sector-appointees

- the total number of existing engagements as of 31 March 2017
- the number that have existed for less than one year at time of reporting
- the number that have existed for between one and two years at time of reporting
- the number that have existed for between two and three years at time of reporting
- the number that have existed for between three and four years at time of reporting
- the number that have existed for four or more years at time of reporting, and
- a 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: *Off-payroll engagements longer than 6 months* below.

New off-payroll engagements

9. For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017, greater than £220 per day and that last for longer than six months:

    - the number of new engagements, or those that reached six months in duration, during the time period
    - the number of new engagements which include contractual clauses giving the employer the right to request assurance in relation to income tax and National Insurance obligations
    - the number for whom assurance has been requested
    - the number for whom assurance has been requested and received
    - the number for whom assurance has been requested but not received
    - the number that have been terminated as a result of assurance not being received.

10. In any cases where, exceptionally, the reporting entity has engaged without including contractual clauses allowing it to seek assurance as to their tax obligations – or where assurance has been requested and not received, without a contract termination – the body should set out the reasons for this.

11. Where an individual leaves after assurance is requested and before assurance is received this should be reported within “number for whom assurance has not been received”.

12. Personal details of all engagements where assurance is requested but not received, for whatever reason, except where the deadline for providing assurance has not yet passed, should be passed to HMRC's tax evasion hotline. Employers should be aware that they will not be informed by HMRC of the results of any investigation it may undertake and therefore employers cannot use this referral as part of their assurance process.

13. Instances where bodies are still waiting for information from the individual at the time of reporting should be reported as not received.

14. Disclosure should be in the format shown in Table 2: *New Off-payroll engagements* below.

Board Member/Senior Management engagements

15. For any off-payroll engagements of board/Governing Body members and/or senior officials with significant financial responsibility between 1 April 2016 and 31 March 2017 reporting entities must also disclose:

- the number of off-payroll engagements of board/Governing body members and/or senior officials with significant financial responsibility
- details of the exceptional circumstances that led to each of these engagements
- details of the length of time each of these exceptional engagements lasted
- the total number of individuals both on and off-payroll that have been deemed "board members and/or senior officials with significant financial responsibility" during the financial year. This total figure must include engagements which are ON PAYROLL as well as those off-payroll.

16. Disclosure should be in the format shown in Table 3: *Off-payroll board member/senior official engagements* below.

Table 1: Off-payroll engagements longer than 6 months

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

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

Confirmation that all existing off-payroll engagements have at some point been subject to a risk based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

Table 2: New Off-payroll engagements

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

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

Note:

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

In any cases where, exceptionally, the [employer] has engaged without including contractual clauses allowing the [employer] to seek assurance as to their tax obligations – or where assurance has been requested and not received, without a contract termination – the [employer] should set out the reasons for this.

Where an individual leaves after assurance is requested but before assurance is received this should be included within "No. for whom assurance has not been received".

Personal details of all engagements where assurance is requested but not received, for whatever reason, except where the deadline for providing assurance has not yet passed, should be passed to HMRC's tax evasion hotline.

Instances where departments are still waiting for information from the individual at the time of reporting should be reported as "No. for whom assurance has not been received".

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

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

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

Note

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

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

3. Financial Reporting Requirements

Government Financial Reporting Manual (*FReM*)

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

Generally accepted accounting practice (GAAP)

3.2. This manual follows GAAP to the extent that it is meaningful and appropriate to the DH group. 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 (IFRS) and interpretations,

interpreted as necessary by

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

International Financial Reporting Standards (IFRS)

3.3. The IASB *Framework for the Preparation and Presentation of Financial Statements,* (*the Framework*), sets out the principles that should underlie general purpose financial statements, the objective of which is to provide information about the financial position, performance and changes in financial position. Presentation should meet the ‘common needs of most users’.

3.4. This manual follows IFRS, as adopted by the EU, to the extent that it is relevant and appropriate to the DH Group:

- International Financial Reporting Standards issued by the International Accounting Standards Board (IASB)
- International Accounting Standards (IASs) issued by the predecessor International Accounting Standards Committee (IASC) and subsequently adopted by the IASB
- Interpretations issued by the IFRS Interpretations Committee (IFRS IC, previously IFRIC)

- Interpretations issued by the predecessor Standing Interpretations Committee (SIC) and subsequently adopted by IFRIC
- the *Framework for the Preparation and Presentation of Financial Statements* issued by the IASC and subsequently adopted by the IASB.

EU-adopted IFRS

3.5. EU-listed companies that prepare group accounts are required to do so in accordance with IFRS as adopted by the EU rather than IFRS as published by the IASB. The adoption process sometimes creates a delay between the IASB or IFRIC issuing a pronouncement and its subsequent EU adoption, during which time companies cannot early-adopt the new, or amended, requirements.

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

Companies Act 2006 requirements

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

Users of the annual report and accounts

3.8. The information presented in the financial statements should be adequate for the needs of the key users of the financial statements. Users include, but are not limited to:

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

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

Chapter 3 Annex 1: Standards and applicability to the DH group

1. The Treasury *FReM* and the *DH Group Accounting Manual* follow International Financial Reporting Standards (IFRS) (as adopted by the European Union) and Interpretations to the extent that they are meaningful and appropriate to public benefit entities: the *FReM* often applies interpretations and adaptations to EU-adopted standards. The table below provides, for each IFRS and Interpretation:
    - its objective
    - as dictated by the FReM, its applicability to the DH group, including any interpretations and adaptations
    - a listing of those Standards not yet adopted.

2. Disclosure requirements are reflected in proforma accounts and detailed guidance issued outside this manual.

3. International Financial Reporting Standards can be obtained from the International Accounting Standards Board (IASB) at www.ifrs.org.

Standard/Interpretation and its objective	**Applicability to the DH group (as prescribed by the *FReM*)**
International Accounting Standards (IAS)	
IAS 1 *Presentation of Financial Statements* (as amended June 2011) 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. **Further details in the *GAM*:** 4.20 to 4.25, 4.39, 4.88 to 4.93, 5.1 to 5.3, 5.26 to 5.28, 5.55, 5.68, 6.1 to 6.3, 7.1	Applies in full with the following interpretations: 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*. 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 *GAM*. The following provide the interpretations of going concern for the public sector context: • 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

<table>
<tr><th>Standard/Interpretation and its objective</th><th>Applicability to the DH group
(as prescribed by the FReM)</th></tr>
<tr><td></td><td>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.

DH group bodies (other than NHS providers) within the departmental accounting boundary shall prepare a SoCNE. NHS providers will prepare a SoCI.

For consistency across the DH group, the option under IAS 1 to present the information as two statements has been withdrawn.

The flexibility to select the order of presentation of line items in the SoFP and to present on a liquidity basis is withdrawn. DH group bodies shall prepare their SoFP in accordance with this manual and their respective pro forma accounts.

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.</td></tr>
<tr><td>IAS 2 Inventories

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.

<u>Further details in the GAM:</u>

<u>6.72 to 6.73</u></td><td>Applies with interpretations relating to strategic reserves and certain other central government categories.

Where any inventories are considered to be “strategic” in the context of stockpiling for national emergencies, they should be treated as non-current assets.</td></tr>
</table>

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
IAS 7 *Statement of Cash Flows* 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 SoCF that classifies cash flows during the period from operating, investing and financing activities. **Further details in the *GAM*:** 6.78 to 6.81, 7.2 to 7.6	Applies in full for the DH group. Applies with interpretation for core DH to include disclosure of cash flows with the Consolidated Fund.
IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* 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. **Further details in the *GAM*:** 4.19 to 4.35	Applies in full. **Note**: Preparers should consult national bodies or the relevant DH sponsor about any novel or contentious accounting policies they might propose to adopt to reflect their specific circumstances. Where preparers consider it necessary to adjust retrospectively for changes in accounting policies or material errors, they should first consult national bodies or the relevant DH sponsor to ensure that the budgeting and Estimates implications have been properly considered. With the exception of NHS foundation trusts, preparers will need to differentiate between local prior period adjustments and centrally required adjustments to opening balances and the DEL and AME impact of any such adjustments.
IAS 10 *Events after the Reporting Period* This standard prescribes when an entity should adjust its financial statements for events after the reporting period and the disclosures required. **Further details in the *GAM*:** 4.40, 7.25 to 7.27	Applies in full with the following interpretation, for NHS providers: Any unpaid dividends for the year will be shown as liabilities in the SoFP (this is because public dividend capital is not an equity instrument as defined by IAS 32).

Standard/Interpretation and its objective	**Applicability to the DH group (as prescribed by the *FReM*)**
IAS 11 *Construction Contracts* The objective of IAS 11 is to prescribe the accounting treatment by contractors of revenue and costs associated with construction contracts.	Not relevant to DH group bodies other than as referred to by IAS 18.21 regarding the rendering of services.
IAS 12 *Income Taxes* The objectives of IAS 12 are to specify the accounting for current and deferred tax.	Applies in full where tax liabilities on income are required.
IAS 16 *Property, Plant and Equipment* The objective of IAS 16 is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. **Further details in the *GAM*:** 6.7 to 6.33, Chapter 6 Annex 3, 7.12 to 7.14 Also, see: IAS 23 *Borrowing Costs* IAS 36 *Impairment of Assets* IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* IFRIC 1 *Changes in Existing Decommissioning, Restoration & Similar Liabilities* IFRIC 12 *Service Concession Arrangements* IFRIC 18 *Transfers of Assets from Customers*	Applies in full with the following interpretations and adaptations: **Interpretations:** All tangible non-current assets shall be carried at either current value in existing use or fair value at the reporting date. The option in IAS 16 to measure at cost is withdrawn, as is the option to value only certain classes of assets. It is not necessary to disclose the historical cost carrying amounts. The current value in existing 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. **Adaptations:** 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 Royal Institution of Chartered Surveyors (RICS) Red Book, this is defined as Existing Use Value (EUV). For

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
	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. 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. 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 IFRS 5 or IAS 40, they should be valued at fair value applying IFRS 13. **Note**: The *FReM* permits entities to elect to adopt a depreciated historical cost basis as a proxy for current value in existing use or fair value for assets that have short useful lives or low values (or both). *FReM* 7.1.14 refers. Disclosure is required if this option is taken, and the assumptions about economic life and depreciation methods provide a reasonable reflection of the consumption of that asset class. **Note:** DH group bodies shall discuss any significant proposals to change asset lives with the relevant national body or the DH sponsor, to ensure that the budgeting implications have been considered
IAS 17 *Leases* The objective of IAS 17 is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to leases. **Further details in the *GAM*:**	Applies in full.

Standard/Interpretation and its objective	**Applicability to the DH group (as prescribed by the *FReM*)**
5.67, 6.58 to 6.61, 7.16 to 7.21 Also see: 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* IFRIC 12 *Service Concession Arrangements*	
IAS 18 *Revenue* The objective of IAS 18 is to identify the circumstances when revenue recognition criteria will be met. It also provides practical guidance on the application of those criteria. **Further details in the *GAM*:** 5.4 to 5.15, 5.52 to 5.54 Also see: SIC 27 *Evaluating the Substance of Transactions involving the Legal Form of a Lease* SIC 31 *Revenue – Barter Transactions involving Advertising Services*	Applies in full.
IAS 19 *Employee benefits* IAS 19 prescribes the accounting and disclosures for all types of employee benefits: • 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.	Applies with the following interpretations: DH group bodies shall account for the NHS Superannuation Scheme as a defined contribution plan. For DH group bodies with staff who are in funded schemes, e.g. the local government scheme: • the discount rate determined in accordance with IAS 19 should be used, as advised by the scheme's actuary. Voluntary terminations with agreed terms under a pension scheme should be treated as post-employment benefits and so discounted using the rate applicable to

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
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 **<u>Further details in the *GAM*:</u>** <u>5.29 to 5.35, 5.60 to 5.62, 5.64 to 5.66, 6.98 to 6.99</u> Also see IFRIC 14: *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	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. 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.
IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* The objective of IAS 20 is to prescribe the accounting treatment for government grants and the disclosures about other government assistance. **<u>Further details in the *GAM*:</u>** <u>5.16 to 5.20</u> Also see SIC 10 *Government Assistance – No Specific Relation to Operating Activities* IFRIC 12 *Service Concession Arrangements*	Applies in full with the following interpretations: The option provided in IAS 20 to offset a grant for acquisitions of an asset against the cost of the asset has been withdrawn. The option provided in IAS 20 to defer grant income relating to an asset is restricted to income where the funder imposes a condition. Where assets are financed by government grant (not a grant from a sponsoring department to an NDPB) or donation (including lottery funding), the funding element is recognised as income and taken through the SoCNE. To defer this income, a condition imposed by the funder must be: a requirement that the future economic benefits embodied in the grant/donation are consumed as specified by the grantor/donor or must be returned to them, e.g. a grant that is conditional on the construction of an asset. Trading Funds, where they have the consent of the relevant authority, need not apply this interpretation. A grant, contribution or donated asset may be received subject to a condition that it be returned to the transferor if a specified future event does or does not occur (for example, a grant may need to be returned if the entity ceases to use the asset purchased with that grant for a purpose specified by the transferor). In these cases, a return obligation does not arise until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such conditions

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
	do not prevent the grant, contribution or donated asset being recognised as income in the SoCNE. Grant-in-aid is provided to match the recipient's cash needs and is to be accounted for on a cash basis. Any exceptions to this treatment must be agreed with DH and HM Treasury. **Note:** Parliamentary Supply does not fall within the meaning of government grants.
IAS 21 *The Effects of Changes in Foreign Exchange Rates* 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. **Further details in the *GAM*:** 7.2 to 7.6 Also see: SIC 7 *Introduction of the Euro* IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	Applies in full with the following interpretation: The presentational currency will be the same as the functional currency i.e. pounds sterling.
IAS 23 *Borrowing Costs* The objective of IAS 23 is to prescribe the accounting for borrowing costs. **Further details in the *GAM*:** 6.53 to 6.56 Also see: IAS 16 *Property, Plant and Equipment* IAS 17 *Leases* IAS 39 *Financial Instruments – Recognition and Measurement*	Applies in full with the following interpretations: Borrowing costs in respect of qualifying assets held at fair value shall be expensed.

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	
IAS 24 *Related Party Disclosures* 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. **Further details in the *GAM*:** 7.28 to 7.32	Applies in full with the following interpretations: For the purposes of IAS 24 paragraph 9(a), the related party will be the chair, chief executive or members of the board of directors, as named in the directors'/members' report (see paragraph 2.24). DH group bodies must disclose the Department of Health as the parent department; a note of the main entities within the public sector with which the body has had dealings (no information needs to be given about these transactions), and details of material transactions between the body and individuals who are regarded as related parties. 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. 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. DH group bodies must disclose as a related party all linked charities (unless formally consolidated) including the nature of the relationship, and details of material transactions between the body and the linked charity. DH group 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.

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
IAS 26 *Accounting and Reporting by Retirement Benefit Plans* The objective of IAS 26 is to provide guidance on the form and content of the financial statements prepared by retirement benefit plans.	Not relevant.
IAS 27 *Separate Financial Statements* IAS 27 requires parent undertakings to provide information about the economic activities of their group as a single economic entity in consolidated financial statements. **Further details in the *GAM*:** 4.41 to 4.44 Also see: SIC 12 *Consolidation – Special Purpose Entities*	Applies in full, except for the following adaptation: The presentation of separate, non-consolidated financial statements will only be applied in full if the investment has not been designated for consolidation by order of the relevant authority under statutory instrument (SI).
IAS 28 *Investments in Associates and Joint Ventures* 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. **Further details in the *GAM*:** 4.41 to 4.44, 4.58 to 4.59, 7.7	Applies with the following adaptation: Where DH has an investment in another public sector entity that has not been designated for consolidation, it should be reported following the requirements of IAS 39. DH agencies should follow the requirements of IAS 28 with respect to public sector entities only if the entities are within the DH's consolidation boundary. DH and DH agencies should apply IAS 28 without adaptation to bodies classified to the private sector and rest of the world by the Office of National Statistics (ONS). DH ALBs (excluding agencies) and NHS bodies should apply IAS 28 without adaptation.
IAS 29 *Financial Reporting in Hyperinflationary Economies* IAS 29 requires the financial statements of an entity	Unlikely to be relevant.

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
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.	
IAS 32 *Financial Instruments: Disclosure and Presentation* IAS 32 establishes principles for presenting financial instruments as liabilities or equities and for offsetting financial assets and financial liabilities. **Further details in the *GAM*:** 6.67 to 6.70, Chapter 6 Annex 1 Also see: IAS 39 *Financial Instruments: Recognition and Measurement* FRS 7 *Financial Instruments: Disclosures* IFRIC 9 *Reassessment of Embedded Derivatives*	Applies in full with the following interpretation: Public dividend capital (PDC) is not an equity instrument as defined by the IAS. It should be presented as a form of financing in the SoFP. Dividends on PDC should be presented as a form of financing in the SoCI in arriving at a provider's retained surplus/deficit for the year.
IAS 33 *Earnings per Share* The objective of IAS 33 is to prescribe principles for the determination and presentation of earnings per share to improve performance comparisons.	Not relevant.
IAS 34 *Interim Financial Reporting* IAS 34 prescribes the minimum content of an interim financial report and the principles for recognition and measurement for an interim period. Also see: IFRIC 10*: Interim Financial Reporting and Impairment.*	DH group bodies are not required to publish interim financial reports at present. Applies in full to a body that elects to do so.
IAS 36 *Impairment of Assets* The objective of IAS 36 is to ensure that assets are carried at no more than their recoverable amount.	Applies in full with the following adaptations and interpretations : **Adaptations**

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
Further details in the *GAM*: 6.44 to 6.52, 7.12 to 7.14 Also see: IAS 16 *Property, Plant and Equipment* IAS 38 *Intangible Assets* IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* IFRIC 10 *Interim Financial Reporting and Impairment* IFRIC 12 *Service Concession Arrangements*	Where an impairment arises from a clear consumption of economic benefit, this must be taken in full to the revenue account, whatever the state of the revaluation reserve on that asset. In other words, the Standard's requirement to recognise an impairment loss on a revalued asset in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset does not apply. 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/Retained Earnings Reserve. That transfer will be the lower of the total impairment or the balance available on the revaluation reserve. For impairments that do not represent a clear consumption of economic resources (generally, market/price fluctuations) the treatment is to take these to the revaluation reserve in the first instance to the extent that a balance exists for that asset, with any excess taken to the revenue account. **Interpretations** 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. **Note**: *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.
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* 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	Applies in full with the following interpretation: 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. **Note**: voluntary early retirement provisions under

Standard/Interpretation and its objective	**Applicability to the DH group (as prescribed by the *FReM*)**
financial statements to enable users to understand their nature, timing and amount. **Further details in the *GAM*:** 6.82 to 6.94, Chapter 6 Annex 2, 7.23 to 7.24 Also see: IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	scheme terms are discounted at the pensions rate rather than the general provisions rate. Treasury sets discount rates for post-employment benefits including injury benefit liabilities. (See Chapter 6 for more detail on Treasury standard discount rates).
IAS 38 *Intangible Assets* 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. **Further details in the *GAM*:** 6.7 to 6.22, 6.36 to 6.43 Also see: IAS 36 *Impairment of Assets* SIC 32 *Intangible Assets – Web Site Costs*	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. 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. 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.
IAS 39 *Financial Instruments: Recognition and Measurement* 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. **Further details in the *GAM*:**	Applies in full with the following interpretations: DH should report public dividend capital at historical cost, less any impairment. Where future cash flows are required to be discounted to measure fair value, entities should use the higher of the rate intrinsic to the financial instrument and the real discount rate set by HM Treasury, as applied to the flows expressed in current prices.

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
6.67 to 6.70, Chapter 6 Annex 1 Also see: IAS 32 *Financial Instruments: Presentation* IFRS 7 *Financial Instruments: Disclosures* IFRIC 9 *Reassessment of Embedded Derivatives* IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	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 the relevant national body or DH sponsor. Note: IAS 39 includes a number of alternative accounting treatments. Entities should discuss any significant choices to be made with the relevant national body or DH sponsor to ensure that the budgeting implications have been properly considered.
IAS 40 *Investment Property* The objective of IAS 40 is to prescribe the accounting treatment for investment property and related disclosure requirements. **Further details in the *GAM*:** 6.7 to 6.22, 6.62 to 6.65	Applies in full with the following interpretations: 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.
IAS 41 *Agriculture* 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.	Not relevant.
International Financial Reporting Standards (IFRS)	
IFRS 1 *First-time Adoption of International Financial Reporting Standards* The objective of IFRS 1 is to ensure that the entity's first IFRS financial statements contain high quality information that: ● is transparent for users and comparable over all periods presented	Applies with the following interpretation: Financial statements to be prepared under the historical cost convention, modified by the revaluation of assets and liabilities to fair value as determined by the relevant account standard, and so the elections available in IFRS 1, 16, 17 and 18 are not relevant.

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
● provides a suitable starting point for accounting under IFRS, and ● can be generated at a cost that does not exceed the benefits to users	
IFRS 2 *Share-based Payment* 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.	Not relevant.
IFRS 3 *Business Combinations* IFRS 3 requires business combinations to be accounted for using the purchase method (also known as the acquisition method). **Further details in the *GAM*:** 4.69 to 4.87	Applies in full to any combination of an DH group body with an entity outside the public sector. 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*. **Note:** Where two or more providers are dissolved and a new one established, as required under legislation public dividend capital equal to the value of the net assets transferring to the new body will be issued.
IFRS 4 *Insurance Contracts* The objective of IFRS 4 is to specify the financial reporting for insurance contracts by an entity that issues such contracts (the insurer).	Not relevant.
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* IFRS 5 sets out requirements for the classification, measurement and presentation of non-current assets	Applies in full with the following interpretation: To qualify as 'discontinued operations' activities must cease completely. Responsibilities transferred from one part of the public sector to another are not discontinued

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
held for sale. **<u>Further details in the *GAM*:</u>** <u>5.47 to 5.49, 6.7 to 6.22, 6.66</u> Also see: IAS 16: *Property, Plant and Equipment* IAS 36: *Impairment of Assets* IAS 38: *Intangible Assets*	operations. Discontinued operations can only occur, therefore, in respect of activities that genuinely cease without transferring to another entity, or which transfer to an entity outside the boundary of WGA, such as the private or voluntary sectors. 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.
IFRS 6 *Exploration for and Evaluation of Mineral Resources* The objective of IFRS 6 is to specify the financial reporting for the exploration for and evaluation of mineral resources.	Not relevant.
IFRS 7 *Financial Instruments: Disclosures* The objective of IFRS 7 is to require entities to provide disclosures in their financial statements that enable users to evaluate: • 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. **<u>Further details in the *GAM*:</u>** <u>5.55, 5.68, 6.67 to 6.70, 6.73 to 6.76, Chapter 6 Annex 1</u> Also see: IAS 32 *Financial Instruments: Presentation* IAS 39 *Financial Instruments: Recognition and Measurement* IFRIC 9 *Reassessment of Embedded Derivatives*	Applies in full.

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
IFRS 8 *Operating Segments* 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. **Further details in the *GAM*:** 5.43 to 5.46	Applies in full.
IFRS 10 *Consolidated Financial Statements* 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. **Further details in the *GAM*:** 4.41 to 4.57, 4.68, 6.6	NHS bodies and DH ALBs (excluding agencies) should apply in full, without adaptation. For DH and DH agencies, subsidiaries will be consolidated only if they are designated for consolidation (on classification by the ONS to the public sector). Otherwise, DH and DH agencies will account for subsidiaries as investments under IAS 39 *Financial Instruments: Recognition and Measurement*.
IFRS 11 *Joint Arrangements* 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). **Further details in the *GAM*:** 4.41 to 4.44, 4.60 to 4.63, Chapter 4 Annexes 1 & 2, 7.7,	NHS bodies and DH ALBs (excluding agencies) should apply in full without adaptation. For DH and DH agencies, will apply in full only where bodies are designated to the private sector and rest of the world by ONS. DH and DH agencies will apply IAS 39 *Financial Instruments: Recognition and Measurement* to investments in a public sector body that has not been designated for consolidation. 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.
IFRS 12 *Disclosure of Interests in Other*	For NHS bodies and DH ALBs, the Standard is applied

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
Entities The objective of this IFRS is to require an entity to disclose information that enables users of its financial statements to evaluate: (a) the nature of, and risks associated with, its interests in other entities, and (b) the effects of those interests on its financial position, financial performance and cash flows. **Further details in the *GAM*:** 4.41 to 4.44, 4.64 to 4.67	in full. Disclosure of interests in other entities is subject to the *FReM* adaptations to IFRS 10, IFRS 11, IAS 27 and IAS 28.
IFRS 13 *Fair Value Measurement* IFRS 13: (a) defines fair value (b) sets out in a single IFRS a framework for measuring fair value, and (c) requires disclosures about fair value measurements. **Further details in the *GAM*:** 6.7 to 6.33	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.
Standards Interpretation Committee (SIC) Interpretations	
SIC 7 *Introduction of the Euro* The requirements of IAS 21 regarding the translation of foreign currency transactions and financial statements of foreign operations should be strictly applied to the changeover to the Euro.	Not relevant.
SIC 10 *Government Assistance – No Specific Relation to Operating Activities* Government assistance to entities meets the definition of government grants in IAS 20 even if there are no	Applies in full with the following interpretations: Parliamentary Supply does not fall within the meaning of government grants. Entities receiving a grant to fund the purchase of a

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
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. Also see: IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*	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).
SIC 15 *Operating Leases – Incentives* 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. **Further details in the *GAM*:** 6.57 to 6.61 Also see: IAS 17 *Leases*	Applies in full.
SIC 25 *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders* 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.	Not relevant.
SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* 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.	Applies in full.

<table>
<tr><th>Standard/Interpretation and its objective</th><th>Applicability to the DH group
(as prescribed by the FReM)</th></tr>
<tr><td><u>Further details in the GAM:</u>
<u>6.57 to 6.61, 7.16 to 7.21</u>
Also see:
IAS 17 Leases
IAS 18 Revenue</td><td></td></tr>
<tr><td>SIC 29 Service Concession Arrangements: Disclosures
SIC 29 lists the disclosure requirements for service concession arrangements.
<u>Further details in the GAM:</u>
<u>Chapter 6 Annex 4</u>
Also see:
IFRIC 12 Service Concession Arrangements.</td><td>The disclosures should be provided for all PFI and LIFT schemes where they are accounted for as service concession arrangements.</td></tr>
<tr><td>SIC 31 Revenue – Barter Transactions Involving Advertising Services
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.
Also see:
IAS 18 Revenue</td><td>Applies in full.</td></tr>
<tr><td>SIC 32 Intangible Assets – Web Site Costs
SIC 32 lays down the conditions for an entity to recognise internal web site development costs as an intangible asset
<u>Further details in the GAM:</u></td><td>Applies in full.</td></tr>
</table>

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
6.36 to 6.43 Also see: IAS 38 *Intangible assets*	
IFRS Interpretations Committee (IFRIC) Interpretations	
IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* 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.	The circumstances are unlikely to arise. If they do, applies in full.
IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments* The entity must consider all the terms and conditions of the financial instrument in determining its classification as a financial liability or equity.	Not relevant.
IFRIC 4 *Determining whether an Arrangement contains a Lease* Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether: • 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. **Further details in the *GAM*:** 6.7 to 6.22, 6.57 to 6.61, 7.16 to 7.21 See also: IAS 17 *Leases.*	Applies in full.

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* 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.	Not relevant.
IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* 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.	Not relevant
IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* 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. Also see: IAS 29: *Financial Reporting in Hyperinflationary Economies*	Unlikely to be relevant.
IFRIC 9 *Reassessment of Embedded Derivatives* 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	Applies in full.

Standard/Interpretation and its objective	**Applicability to the DH group (as prescribed by the *FReM*)**
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. **Further details in the *GAM*:** 6.67 to 6.70, Chapter 6 Annex 1 Also see: IAS 32 *Financial Instruments: Presentation* IAS 39 *Financial Instruments: Recognition and Measurement* IFRS 7 *Financial Instruments: Disclosure*	
IFRIC 10 *Interim Financial Reporting and Impairment* 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. See also: *IAS 34 Interim Financial Reporting.*	DH group bodies are not required to publish interim financial reports at present. Applies in full to a body that elects to do so.
IFRIC 11 *IFRS 2 - Group and Treasury Share Transactions*	Unlikely to be relevant.
IFRIC 12 *Service Concession Arrangements* IFRIC 12 deals primarily with public-to-private service concession arrangements for the delivery of public services. It applies only to concession agreements where the use of the infrastructure is controlled by the grantor. **Further details in the *GAM*:** 6.7 to 6.22, Chapter 6 Annex 4	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 schemes will be accounted for as Property, Plant and Equipment. The application of this interpretation is complex. DH group bodies should refer to both Treasury's guidance '*Accounting for PPP arrangements including PFI contracts under IFRS*' in chapter 6 of the *FReM*) at http://www.hm-treasury.gov.uk/frem_index.htm (7.1.44

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
Also see: SIC 29 *Service Concession Arrangements: Disclosures*	et seq) and the DH guidance on accounting for PFI and NHS LIFT under IFRS published on the Finman website.
IFRIC 13 *Customer Loyalty Programmes* An entity shall account for award credits as a separately identifiable component of the sales transaction(s) in which they are granted.	Not relevant.
IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* 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. 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. 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 whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan. Also see: IAS 19 *Employee Benefits* IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*	Potentially relevant where DH group bodies have pension assets and liabilities for staff who remain in a Local Government Pension Scheme. *The FReM* Chapter 6 lists the adaptations and interpretations of IAS 19 relevant to the public sector.
IFRIC 15 *Agreements for the Construction of Real Estate*	Not relevant.

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
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.	
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* 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. Also see: IAS 21 *The Effects of Changes in Foreign Exchange Rates* IAS 39 *Financial Instruments: Recognition and Measurement*	Unlikely to be relevant.
IFRIC 17 *Distributions of Non-cash Assets to Owners* This interpretation clarifies how an entity should measure distributions of assets, other than cash, when it pays dividends to its owners.	Applies in full.
IFRIC 18 *Transfer of Assets from Customers* 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. Also see IFRIC 12 *Service Concession Arrangements*	Applies in full.
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	Unlikely to be relevant.

Standard/Interpretation and its objective	Applicability to the DH group (as prescribed by the *FReM*)
IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	Not relevant.
IFRIC 21 *Levies*	Applies in full.

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

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

Standards issued or amended but not yet adopted in *FReM*	
IFRS 9 *Financial Instruments*	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.
IFRS 14 *Regulatory Deferral Accounts*	Not yet EU-endorsed.* Applies to first time adopters of IFRS after 1 January 2016. Therefore not applicable to DH group bodies.
IFRS 15 *Revenue from Contracts with Customers*	Application required for accounting periods beginning on or after 1 January 2018, but not yet adopted by the *FReM*: early adoption is not therefore permitted.
IFRS 16 *Leases*	Application required for accounting periods beginning on or after 1 January 2019, but not yet adopted by the *FReM*: early adoption is not therefore permitted.

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

Chapter 3 Annex 3: *Companies Act 2006* Requirements

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

CA2006 Reference	**Regulations Reference**[29]	**Description**
Section 409	Regulation 7 and Schedule 4	Information about related undertakings in a note to the accounts.
Section 410A[30]		Information about off-SoFP arrangements in a note to the accounts.
Section 411		Information about employee numbers and costs in a note to the accounts. For DH group bodies, staff numbers and costs are included in the staff report within the annual report.
Section 412 (1) to (5)	Regulation 8 and Schedule 5	Not required by the *FReM*, as these requirements are considered to be met by the preparation of a remuneration report as part of the annual report.
Section 413		**NHS foundation trusts only:** Information about directors' benefits: advances, credit and guarantees, in a note to the accounts.
Sections: 414A(1),(3) and (4); 414C and 414D(1)[31]		Strategic Report These requirements are adapted into the Performance Report: see chapter 2 (for bodies other than NHS foundation trusts).
Sections: 415(1) to (3) 416[5]**;**	Regulation 10[5] and Schedule 7[5]	Directors' report These requirements are adapted for the public

[29] SI 2008 No.410, *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008*

[30] Inserted in the Act by SI 2008 No.393, *The Companies Act 2006 (Accounts and Reports) (Amendment) Regulations 2008*

[31] As modified / inserted by SI 2013 No.1970, *The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013*

CA2006 Reference	Regulations Reference[29]	Description
418(1) to (4); and 419(1).		sector: see chapter 2 (for bodies other than NHS foundation trusts).
Sections: 420(1); 421(1) to (2); and 422(1).	Regulation 11 and Schedule 8	Quoted Companies: Directors' Remuneration Report Section 497 which requires auditors to report on elements of the directors' remuneration report in the audit opinion is applicable. These requirements are adapted for the public sector: see chapter 2 (for bodies other than NHS foundation trusts).
Sections 426 and 426A[5]		Contents of strategic report with supplementary material. (applicable only if the entity chooses to prepare an additional performance overview report with supplementary material).

Chapter 3 Annex 4: Other Relevant Accounting Pronouncements

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

Transactions not covered by IFRS requirements	**Accounting requirements to be applied**	***FReM* reference**
Accounting for value added tax (VAT).	FRS 102 paragraph 29.20	None
Accounting for Heritage Assets	FRS 102 paragraphs 34.49 to 34.35	7.1.30 to 7.1.47

Chapter 3 Annex 5: Departures from the *FReM*

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

Agreed departures from the *FReM*

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

4. Financial Statements: Accounting Policy and application of standards

Introduction

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

Annual Accounts Format

Primary Financial Statements

4.2 The annual accounts must include a set of primary financial statements. The format of these statements must be followed precisely, as communicated by the relevant national bodies, and include all headings except where the value of both current and comparative prior year is nil.

4.3 DH group bodies must include the following primary statements:

- Statement of Comprehensive Net Expenditure (SoCNE) (NHS providers must instead include a Statement of Comprehensive Income (SoCI). DH ALBs may also include a SoCI where appropriate to their business.)
- Statement of Financial Position (SoFP)
- Statement of Changes in Taxpayers' Equity (SoCTE)
- Statement of Cash Flows (SoCF).

Notes relevant to the financial statements

4.4 An entity has discretion over the presentation of the notes to the accounts. In applying discretion, the entity must be mindful of materiality, and where this manual makes clear specific disclosure requirements which must be followed.

4.5 Although entities may apply discretion in presenting their disclosures, they must continue to ensure consistency between the accounts and the summarisation schedules. For NHS foundation trusts, disclosures entitled 'note' in the summarisation schedules (FTCs) should be included in the accounts but entities have discretion over their precise format and may be omitted if immaterial.

Example Accounts Format

4.6 Illustrative accounts formats are provided by the relevant national bodies to assist with the completion of the accounts. These example formats show the format required for the primary statements and examples of how the notes to the financial statements should be presented.

4.7 Example accounts formats applicable to each area of the DH group are listed below. These are illustrative, and are not mandatory for use except where this manual indicates that format in the example accounts is required.

4.8 **NHS trusts** should use the NHS trust linked accounts template, which provides a link between summarisation schedule and the example accounts format for NHS trusts. This will be published in early 2017.

4.9 **DH ALBs** should refer to the Agency Pink/NDPB Green illustrative account, published by HM Treasury. The format for 2016-17 is already published alongside the *FReM*, however HMT may make updates to the format at any time up to December 2016

4.10 **NHS foundation trusts** should refer to the example FT accounts template published by NHS Improvement. Any concerns over the form and content of the annual accounts should be discussed with NHS Improvement.

4.11 **CCGs** should refer to the model accounts template for CCGs issued by NHS England.

Summarisation schedules

4.12 As described in paragraph 1.11, summarisation schedules refer to the method of collecting accounts data by DH, Monitor (operating as NHS Improvement) and NHS England for accounts consolidation purposes. The summarisation schedules are provided by these bodies in a set format to ensure all data required for completion of the accounts is collected.

4.13 While discretion applies in the format of the published ARA based on the application of materiality, DH group bodies must complete the whole of the summarisation schedule. While balances may not be material at an entity level, the totals may aggregate across the sector/group to a material level that DH or the relevant national body would need to disclose on consolidation. There are other data requests in the schedules which provide additional assurance to the accounts, such as agreement of balances data, or for other purposes, such as management information or Whole of Government Accounts completion.

4.14 Before submission to DH or the relevant national body, it is important for any validation issues to be cleared. This helps provide assurance for the consistency of data submitted to the relevant national body, and also for the entity's annual accounts. Entities may also be required to provide their audited annual accounts to the relevant national body or DH for consistency checking. Completion guidance and submission timetables will be released towards the end of 2016.

True and fair view

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

Accounting convention

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

Accounting policies and materiality

4.17 DH group bodies should adopt accounting policies which provide the most relevant and reliable information on completion of the annual accounts. Example accounting policies may be provided by the relevant national bodies (see below), and the relevance of such policies to the accounts and disclosures is described in more detail in Chapters 5 – 7:

- NHS trusts' example accounting policies are in the NHS trust linked accounts template
- NHS foundation trusts can find example accounting policies alongside the example accounts template issued by NHS Improvement
- CCGs can find example accounting policies within the draft accounts format issued by NHS England
- DH ALBs should contact DH for further guidance where required. Due to the varied nature of business in the DH ALB sector, the DH does not provide example policies.

4.18 There is no requirement to disclose policies that are irrelevant or immaterial to the entity in the accounting policies note.

4.19 IAS 8 notes that accounting requirements in the standards need not be applied to immaterial items, but also notes that “it is inappropriate to make, or leave uncorrected, immaterial departures from IFRS to achieve a particular presentation of an entity’s financial position, financial performance or cash flows”.

4.20 Similarly, IAS 1 notes that specific disclosure requirements of IFRS need not be satisfied if the information is not material. Both IAS 1 and IAS 8 define materiality as follows:

> “O*missions or misstatements of items are material if they could individually, or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size and nature of the item, or a combination of both, could be the determining factor.*”

4.21 In the absence of a specific standard or interpretation, paragraphs 10 to 12 of IAS 8 describe the approach that management should take to formulating an accounting policy, including the hierarchy of guidance to which it should refer.

Key sources of judgement and estimation uncertainty

4.22 Under IAS 1, *Presentation of Financial Statements*, entities should disclose the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

4.23 Entities should also disclose information about key sources of estimation uncertainty. It will be for each entity to decide which uncertainties require disclosure in this way, but examples might include:

- actuarial assumptions in respect of post-employment benefits
- assumptions underlying the likelihood and outcome of material provisions
- assumptions regarding the valuation of properties
- future changes in accounting policy.

4.24 The determination of the carrying values of some assets and liabilities may require estimation of the effects of future uncertain events. Examples include the estimation of the recoverable amount of plant, property and equipment in the absence of recently observed market prices, or the assumptions underlying the estimation of material provisions.

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

Errors in the financial statements

4.26 All material errors identified in a previous year's financial statements must be corrected through a prior period adjustment except to the extent that, it is impracticable to determine either the period-specific effects or the cumulative effect of the error. Further information regarding prior period adjustments can be found in paragraph 4.31.

Changes in accounting policy

4.27 An entity may change an accounting policy only where it is required by a new standard or interpretation (including any revisions to this manual) or voluntarily only if it results in the financial statements providing reliable and more relevant information about transactions, events, conditions, or the entity's financial position, financial performance or cash flows.

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

4.29 IAS 8 requires that prior period adjustments should be effected by restating each element of equity (reserves) at the start of the prior year as if the accounting policy had always applied. Any difference between the reported financial results and the adjusted financial results should be reported, as described in the standard. The restatement should be replicated in the relevant sections of the summarisation schedules.

4.30 Where an entity has to make a prior period adjustment (for any reason other than an adjustment required by the manual), they should inform the relevant sector finance lead so that the appropriate information can be collected for consolidation. Further information regarding prior period adjustments can be found in paragraph 4.31.

Prior period adjustments (PPAs)

4.31 In preparing the DH group accounts, the DH must make a distinction between:

- those PPAs which will require restatement of the consolidated accounts including, but not limited to, changes in accounting policy, machinery of government changes, errors material to the consolidated accounts, and
- PPAs requiring local restatement, under IAS 8. These may include, but are not limited to, errors material to the entity (but not consolidated) accounts.

4.32 In the case of the former, the *FReM* and this manual will usually prescribe the appropriate handling arrangements, and the DH will issue detailed guidance on restatement of accounts and the collection of restated data via summarisation schedules where appropriate, even if immaterial at a local body level.

4.33 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 the rules that apply to the Department's accounts will likely require these to be recorded 'in year' given that they are unlikely to be material nationally.

Impact for bodies other than NHS foundation trusts

4.34 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 DH must be identical to closing 31 March xx balances. Similarly, at the national level, prior period comparator income and expenditure figures will be unchanged. The resulting inconsistency between local accounts and the summarisation schedules based on those accounts is handled by clear disclosures of the nature and impact of the PPA (as required by IAS 8) and a detailed reconciliation in the schedules between the accounts and the schedules opening balances.

Impact for NHS foundation trusts only

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

Gross and Net accounting

4.36 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. "Gross accounting" refers to the separate recording of inflows and outflows in an entity's accounts, recognising the impact on the entity's income and expenditure. "Net accounting" refers to the netting off of inflows and outflows in an agency relationship, so that the entity only recognises impacts to the extent that it is acting as a principal.

4.37 An organisation is acting as an agent if it has transferred risks and rewards to the other party. For example, in the case of staff secondments, if the member of staff concerned is off sick for a period of time, and the employing organisation would need to send a replacement to the receiving organisation, then the risks of employment of that individual have not been transferred and both parties should use gross accounting. On the other hand, if no substitute would be sent and the receiving organisation would continue to pay, this may indicate that the risks have been transferred and net accounting may be used.

4.38 To avoid mismatches during the agreement of transactions and balances process, it is important that each arrangement is assessed individually against the relevant accounting standards and that the treatment is agreed between parties. In particular, if net accounting is used by a commissioning or intermediary organisation, the ultimate purchaser and supplier will need to be told against whom to record the transactions and balances to ensure these will net out on consolidations. Further specific guidance on agreement of balances is published for the Q2, Q3 and Q4 (year-end) agreement exercises.

Comparative amounts

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

Events after the reporting period

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

Group Accounting Standards

Consolidated Accounts

4.41 The following group accounting standards are relevant, subject to the *FReM* guidance on applicability:

- IFRS 10, *Consolidated Financial Statements*
- IFRS 11, *Joint Arrangements*
- IFRS 12, *Disclosure of Interests in Other Entities*
- IAS 27, *Separate Financial Statements*
- IAS 28, *Investments in Associates and Joint Ventures*.

4.42 The DH group boundary is determined by the control criteria used by the Office for National Statistics (ONS), rather than by reference to the standards, meaning that public bodies will only be consolidated by DH or its agencies if they have been classified to the DH group by the ONS. However, NHS bodies and DH ALBs (excluding agencies) will apply group accounting standards without adaptation or interpretation. This raises the possibility, where investments in other entities are material at the national level, that consolidation adjustments may be required between individual accounts (which may consolidate bodies in accordance with IFRS 10 but outside of ONS accounting boundary) and the consolidated account and budgets (which must not consolidate any bodies outside of the ONS boundary). Where the question of materiality at the national level arises, entities should discuss with their sponsor division or relevant national body with a view to their agreeing treatments with DH.

4.43 The table below summarises the impact of the statements taken together on DH Group bodies.

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

Investment	DH and DH agencies accounting treatment	NHS bodies and DH ALBs (excl. agencies) accounting treatment
Entity has control over investee. IFRS 10 *Consolidated Financial Statements* applies	If the subsidiary is designated to the DH boundary by virtue of a SI following Office of National Statistics (ONS) classification: ***Consolidate*** per IFRS 10 If subsidiary is a public sector body not designated or is classified as a public corporation: ***Treat as investment*** per IAS 39, *Financial Instruments: Recognition and Measurement*	Apply IFRS 10 in full and without adaptation in Statutory Accounts. Treatment in summarisation schedules: - NHS foundation trusts - FTC submission must be consistent with the statutory accounts. NHS Improvement will adjust centrally where a material subsidiary is not designated for consolidation. - Other NHS bodies and ALBs - Summarisation schedules should be on a single entity basis, excluding subsidiaries not designated for consolidation, unless these are immaterial to the group. Contact the relevant DH sponsor division or national body to discuss where necessary.'
Entity has investments in joint ventures or associates that are outside the public sector.	If the investee is classified to the private sector and the rest of the world by ONS: ***Apply IAS 28***, *Investments in Associates and Joint Ventures,* and apply the equity method of accounting.	Apply IAS 28 in full and without adaptation in Statutory Accounts.
A joint arrangement exists	For joint arrangements classified to the Departmental boundary by ONS, (para 4.42) DH should follow IFRS 10. DH	Apply IFRS 11, *Joint Arrangements*, in full and without adaptation.

	agencies should follow IFRS 11 for public sector bodies designated to the parent department. If the investment is in another public sector body or public corporation: ***Treat as investment*** per IAS 39, *Financial Instruments: Recognition and Measurement,* as above. If the investment is with a body classified to the private sector and rest of the world by the ONS: ***Apply IFRS 11*** without adaptation.	
Disclosures	IFRS 12, *Disclosure of Interests in Other Entities*, 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. IAS 27, *Separate Financial Statements*, 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.	

4.45 The following sections describe the application without adaptation of IFRS 10, IFRS 11, IFRS 12 and IAS 28, and are relevant to NHS bodies and DH ALBs (excluding agencies).

Subsidiaries (IFRS 10)

4.46 Under IFRS 10, an entity controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control should be assessed regardless of the nature of the body's involvement with the investee; i.e. there does not need to be a formal financial investment in the entity.

4.47 Power over the investee occurs where the entity has existing rights that give it the current ability to direct the relevant activities i.e. the activities that significantly affect the returns the entity receives from the investee.

4.48 If the entity determines that another entity is a subsidiary then it should consolidate the subsidiary in accordance with IFRS 10.

4.49 The ARA of the entity then includes both the group accounts and individual accounts of the entity.

Presentation and disclosure

4.50 The principles of IFRS 10 will be applied to all other entities in which the entity has an interest, including NHS charitable funds (see section below).

4.51 The primary statements and notes to the accounts should be presented with separate 'Group' and 'Parent Entity' columns. An NHS trust or NHS foundation trust may title the parent entity column "Trust" if it wishes. NHS foundation trusts may take advantage of the exemption afforded by the *Companies Act 2006* to omit the SoCI for the foundation trust parent if it wishes. Where a foundation trust takes advantage of this exemption it should disclose that it has done so in a note to the accounts, together with the surplus/deficit of the parent trust and comply with the other requirements of section 408 of the *Companies Act 2006*[32].

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

NHS Charities: local consolidation by provider bodies

4.53 Under IFRS 10, and where the criteria related to control of the charity applies, and subject to materiality, charitable funds related to the NHS trust or NHS foundation trust should be consolidated. Note that, for the purpose of summarisation schedules, NHS trusts should not consolidate charitable funds but should complete the separate charities form. NHS foundation trusts should ensure the FTC submission is consistent with the statutory accounts.

4.54 There is an additional requirement for DH to consolidate NHS Charities, which have been classified by the Office of National Statistics (ONS) as within the public sector, into the DH group accounts. In this sense, 'NHS Charities' is defined by section 43 of the *Charities Act 1993*, and includes those charities where trustees are appointed by NHS Improvement.

4.55 NHS bodies will therefore need to distinguish between:

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

4.56 Where the NHS charitable funds are consolidated by the provider body, the SoFP should present charitable unrestricted funds, restricted funds and endowments as a single item of charitable reserves, with separate analysis and explanation of these funds in a note to

[32] http://www.legislation.gov.uk/ukpga/2006/46/section/408

the accounts where applicable. To record any charitable income, additional line items are also likely to be needed in the SoCI, SoCF, and within the supporting notes.

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

Associates (IAS 28)

4.58 An entity is an associate of another entity where that entity 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 merely to have the power to exercise significant influence in order for the entity to be an associate, regardless of whether the power is actually used in practice.

4.59 Where an associate exists, the entity exercising significant influence 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 an entity is not already preparing consolidated accounts. Where, however, an associate is classified as 'held for sale' in accordance with IFRS 5, it shall be accounted for in accordance with the requirements of that standard.

Joint arrangements (IFRS 11)

4.60 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. Guidance on Better Care Fund arrangements can be found at the end of this chapter in Annex 1 *Accounting for the Better Care Fund*.

4.61 The classification of a joint arrangement as either a joint operation or a joint venture depends on the rights and obligations of the parties to the arrangement.

4.62 A joint operation exists where the parties sharing joint control have rights to the assets and obligations for the liabilities relating to the arrangement. Where an entity is a joint operator it should recognise its, or its share of, assets, liabilities, income and expenses in its own accounts.

4.63 A joint venture exists where the parties sharing joint control have rights to the net assets of the arrangement. Where an entity has entered into a joint venture, it should recognise its investment in its own group accounts through the equity method in IAS 28 (unless exempted from doing so under that standard). In its separate financial statements, the entity recognises its interest in the joint venture in accordance with paragraph 10 of IAS 27.

Disclosure of interests in other entities (IFRS 12)

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

4.65 The standard also requires disclosure of interests in unconsolidated structured entities. Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example where voting rights relate to administrative tasks only and the relevant activities are directed instead by means of contractual arrangements.

4.66 While IFRS 12 applies in full, entities are expected to take a proportionate approach to these disclosures and may wish to apply the aggregation principles set out in paragraphs B2 to B6 of the standard where an entity has a number of interests to disclose, if applicable.

4.67 Entities should also include disclosures for related undertakings as required by the section 409 of the *Companies Act 2006*[33] and regulation 7 and schedule 4 to SI 2008 No.410, *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008*[34].

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

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

[33] http://www.legislation.gov.uk/ukpga/2006/46/section/409

[34] http://www.legislation.gov.uk/uksi/2008/410/contents/made

Business Combinations

Acquisition of a business from outside the WGA boundary

4.69 Where a DH group body acquires a business from outside of the Whole of Government Accounts boundary, it should be accounted for in accordance with IFRS 3.

4.70 Where IFRS 3 is applicable, the combination is accounted for at fair value at the date of combination. Goodwill arising from the transaction is accounted for as an asset: it is not amortised but is subject to impairment testing as required by IAS 36, *Impairment of Assets*.

Acquisition/Transfer of a business from inside the WGA boundary

4.71 IFRS 3 excludes from its scope business combinations involving entities or businesses under common control. The *FReM* deems public sector bodies to be under common control. Where a function transfers between a DH group body and another entity within the Whole of Government Accounts boundary this represents a "machinery of government change" regardless of the mechanism used to effect the combination, for example statutory merger or purchase of the business.

4.72 For these purposes, a function is defined as "an identifiable business operation with an integrated set of activities, staff and recognised assets and/or liabilities that are capable of being conducted and managed to achieve the objectives of that business operation".

4.73 Departmental group bodies must account for transfers of function to/from another DH group body or to/from a local government body as a 'transfer by absorption'.

4.74 Where the transfer from the group body is to/from another central government body within the WGA boundary (not under the Departmental Resource Accounts Boundary), the machinery of government change would be accounted for as a "transfer by merger". The *FReM* describes the required accounting in such cases.

Transfer by absorption

4.75 Where a DH group body is the recipient in the transfer of a function, it recognises the assets and liabilities received as at the date of transfer. The assets and liabilities are not adjusted to fair value prior to recognition (i.e. the recipient and exporter of the assets and liabilities recognise the same values). The corresponding net credit / debit reflecting the gain / loss is recognised within income / expenses, but outside of operating activities.

4.76 The pre-transfer income, expenses, assets and liabilities of the group body are not adjusted to include any pre-transfer activity of the function.

4.77 For property plant and equipment assets and intangible assets, the cost and accumulated depreciation / amortisation amounts from the transferring entity's accounts are preserved when the assets are recognised in the body's accounts.

4.78 Where any assets received had an attributable revaluation reserve balance in the transferring entity's accounts, this is preserved in the group body's accounts by it transferring the relevant amount from its income and expenditure reserve to its revaluation reserve.

Example 1:

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

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

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

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

4.80 Where, the DH group body is the body relinquishing the function, the opposite accounting entries apply. It de-recognises the assets and liabilities as at the date of transfer and recognises the corresponding net debit / credit as a loss / gain in expenses / income but not within operating activities. Any revaluation reserve balances attributable to the assets transferred are removed from the revaluation reserve and transferred to the income and expenditure reserve.

4.81 The pre-transfer activities of the function remain in the original body's accounts. The only adjustments made are in respect of the assets and liabilities actually transferring, as described above.

4.82 Where the divesting body is an NHS trust or NHS foundation trust, and its services are transferred to one or more receiving bodies, Public Dividend Capital (PDC) may also transfer and will be specified in the legal documentation. Where this is the case the total value of PDC transferring to receiving entities will normally be the lower of net assets transferring and the existing PDC reserve balance in the divesting body. Where net assets exceed the existing PDC balance, legal documentation will determine the basis of the allocation of PDC between the multiple receiving bodies, and the Secretary of State will subsequently determine the values of PDC transferred. Where the value of PDC in the divesting body exceeds the value of net assets transferring, the excess will be retained by the divesting trust in its closing balance sheet and DH will usually then apply to HM Treasury for this excess to be subsequently written off. When a PDC balance is transferred to a receiving body, PDC will be recognised by the receiving body by transferring the relevant amount from its income and expenditure reserve to its PDC reserve (see example 2 below).

Example 2:

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

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

Dr Net assets £210m

Cr I&E (absorption gain) £210m

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

Dr I&E reserve £30m

Cr Revaluation reserve £30m

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

Dr I&E reserve £210m

Cr PDC reserve £210m

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

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

Business combinations disclosure

4.84 A DH group body that receives a transfer of functions must disclose in its financial statements:

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

4.85 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 reporting period" disclosure, giving this detail, see Chapter 1 Annex 3: *Reporting requirements on change of status*.

4.86 Summarisation schedules will require a more detailed analysis to enable the transitions to be reconciled between transferor and transferee.

4.87 Where the substance of the transaction is effectively one of an acquisition, the DH group body should consider whether some, or all, of the IFRS 3, *Business Combinations* disclosures are needed to provide readers with a proper understanding of the transaction.

Going concern

4.88 The *FReM* notes that in applying paragraphs 25 to 26 of IAS 1, preparers of financial statements should be aware of the following interpretations of Going Concern for the public sector context.

4.89 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. DH group bodies should therefore prepare their accounts on a going concern basis unless informed by the relevant national body or DH sponsor of the intention for dissolution without transfer of services or function to another entity. A trading entity needs to consider whether it is appropriate to continue to prepare its financial statements on a going concern basis where it is being, or is likely to be, wound up.

4.90 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 sponsor division or relevant national body, the going concern basis is deemed inappropriate.

4.91 Where an entity ceases to exist, it should consider whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern in its final set of financial statements.

4.92 Where a DH group body is aware of material uncertainties in respect of events or conditions that cast significant doubt upon the going concern ability of the entity, these uncertainties should be disclosed. This may include for example where continuing operational stability depends on finance or income that has not yet been approved.

4.93 Should a DH group body have concerns about its "going concern" status (and this will only be the case if there is a prospect of services ceasing altogether) it should raise the issue with its sponsor division or relevant national body as soon as possible.

Chapter 4 Annex 1 – Accounting for Pooled Budgets and Joint Arrangements

Introduction

4A1.1. CCGs and NHS providers are increasingly experiencing a wide variety of healthcare commissioning arrangements. To date, such arrangements typically involve two or more CCGs, or combinations of CCGs and local authorities in co-commissioning arrangements, lead commissioning and pooled budgets. Since 2015, many of these arrangements have been established as part of the Better Care Fund initiative.

4A1.2. In accounting for such arrangements, entities must follow the relevant accounting standards, subject to any adaptations and interpretations set out in this manual.

4A1.3. This annex provides supplementary guidance, outlining typical arrangements that exist in the NHS and illustrating how the relevant accounting principles apply. This guidance is needed to ensure that all parties to these arrangements have a clear understanding of their own and their counterparties' accounting and reporting requirements and are implementing these consistently. This will aid in agreement of balances exercises and successful elimination of intra-group transactions and balances.

The Better Care Fund (BCF)

4A1.4. The Better Care Fund initiative was announced in the 2013 Spending Review, and required CCGs and local authorities to pool funding for the delivery of integrated health and social care. As a result, partnerships of CCGs and local authorities entered into agreements under section 75 of the *NHS Act 2006*, overseen by local Health and Wellbeing Boards. These agreements established pooled budgets to enable integrated commissioning of care from providers. These budgets have been in place since 2015-16.

4A1.5. Where CCGs receive ring-fenced BCF allocations, it is a requirement that they enter into pooled budgets with local authorities, set up under section 75 arrangements. NHS England has statutory powers to retain or recover funds that are not applied in accordance with approved plans and through a section 75 pooled budget agreement

4A1.6. Additional information and operating guidance on BCF is available on the NHS England website[35]. This includes a template section 75 agreement [36] and advice on the drafting of such agreements.

[35] https://www.england.nhs.uk/ourwork/part-rel/transformation-fund/bcf-plan/

[36] https://www.england.nhs.uk/ourwork/part-rel/transformation-fund/bcf-plan/risk-sharing/

4A1.7. Whilst BCF is arguably the highest profile example of joint commissioning of healthcare, it is not unique and its accounting treatment and disclosures do not differ in principle from other pooled budgets and similar arrangements.

Relevant accounting standards and guidance

4A1.8. A joint commissioning arrangement or pooled budget may constitute a joint arrangement, as defined in IFRS 11 *Joint Arrangements*. A joint arrangement exists where two or more parties have joint control of the arrangement. The concept of control is defined in IFRS 10 *Consolidated Financial Statements*.

4A1.9. Where IFRS 11 indicates that a joint arrangement is a joint venture, the accounting treatment is set out in IAS 28 *Investments in Associates and Joint Ventures*.

4A1.10. The disclosure requirements for parties with joint control of a joint arrangement are set out in IFRS 12 *Disclosure of Interests in Other Entities*.

4A1.11. Where an entity acquires an interest in a joint operation in which the activity constitutes a business, IFRS 3 *Business Combinations* is relevant.

4A1.12. Where a joint arrangement does not exist, a host to a pooled budget may need to consider whether it is acting as an agent or principal when it receives funds from other parties to the pool. This is addressed in IAS 18 *Revenue* (including the Illustrative Examples).

4A1.13. Regulations for arrangements between NHS bodies and local authorities are set out in the *NHS Act 2006* section 75 and SI 2000 No. 617, *NHS Bodies and Local Authorities Partnership Arrangements Regulations 2000*.

Detailed guidance

Overview of pooled budgets

4A1.14. A pooled budget occurs where a number of partners agree to set aside funds for a specific purpose that they will pursue jointly, usually because it addresses common objectives or results in benefits from working together. This implies an element of joint decision making over how the funds are used.

4A1.15. In such a pooled budget arrangement, one of the members typically acts as ‘host’. This usually involves the other members making cash contributions into the pooled budget, which the host then uses to commission services on behalf of the contributors. All parties to the arrangement will account for a share of the commissioning costs. The precise accounting will be determined by the terms of the agreement between these parties.

4A1.16. However, there is no requirement to physically transfer cash in order to have a pooled budget arrangement. The statute requires that a memorandum pooled budget account is maintained by the host but makes no mention of cash transfers. e memorandum accounts can be funded by cash that remains with each of the members, as long as there is a clear understanding set out in the section 75 agreement that members have committed that amount of cash for the purposes of the pooled budget.

4A1.17. It is important to remember that a pooled budget is simply an aggregation of balances that belong to the pooled budget members, rather than an entity in its own right. In considering how to account for pooled budget transactions, members will need to consider the nature of their relationship with other members of the pool and with providers of services to the pool. This is discussed in greater detail below. Members must not record transactions with the pool as though it were a separate entity.

4A1.18. Pooled budget agreements must therefore provide that the hosting body will supply members and providers on a timely basis with all the financial data needed to allow them to analyse and report their transactions. In particular, pool members and providers must be given on at least a quarterly basis, and soon enough to be useful, statements that detail their underlying transactions with the appropriate pool member counterparty.

4A1.19. Cash contributions to the pooled budget do not constitute expenditure. Members must apply the usual accruals concept to the recognition of expenditure for services delivered, and should not confuse this with the movement of cash.

Identifying joint arrangements and agency relationships

4A1.20. Members will need to consider the precise nature of the contractual terms contained in section 75 and other agreements to determine the appropriate accounting treatment for a pooled budget or collaborative working arrangement.

4A1.21. While the joint nature of such agreements may suggest a joint arrangement, as defined in IFRS 11, the detail of each agreement might point to a different approach. Given that a pooled budget might contain distinct funding streams for a variety of commissioning arrangements, it is possible that different accounting treatments will apply to different elements. Each must therefore be considered separately.

4A1.22. As a first stage, members will need to understand what rights, obligations and powers are conferred on members through the contractual arrangements. Crucially, it is necessary to determine where control of the operation lies.

Control

4A1.23. IFRS 11 defines a joint arrangement as ‘an arrangement of which two or more parties have joint control’. To establish whether joint control exists, it is first necessary to determine whether all of the parties, or a group of them, collectively control the arrangement. IFRS 10 states that an investor controls an investee if and only if it has all the following:

- power over the investee
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of the investor's returns.

4A1.24. Power arises from the rights of the investor, and exists where the investor has existing rights that give it the current ability to direct the relevant activities, that is the activities that significantly affect the investee's returns.

4A1.25. If a single entity controls the arrangement under these criteria, then that entity would consolidate the arrangement. This is unlikely to be the case in a genuine instance of collaborative working.

4A1.26. If two or more entities control the arrangement collectively, then a joint arrangement may exist. For this to be the case, the entities must exercise joint control. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement.

4A1.27. The accounting does not automatically follow the legal provisions contained in the pooled budget agreement. Members must consider the underlying substance of the arrangement and agree whether joint control exists.

4A1.28. If joint control does not exist, because unanimous consent is not required, then a joint arrangement does not exist. In this case, it is necessary to refer to IAS 18 to consider whether the parties are in an agency relationship.

4A1.29. This approach to categorising collaborative working arrangements is summarised in figure 1 below.

Joint arrangements

4A1.30. There are two types of joint arrangements: 'joint operations' and 'joint ventures'.

4A1.31. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets, and obligations for the liabilities, relating to the arrangement. This applies to all joint arrangements not structured through a separate vehicle, which is likely to be the case for a pooled budget. Even where a separate vehicle is involved, the arrangement may still be a joint operation. Joint operators will need to account for the assets, liabilities, revenues and expenses relating to their interest in the joint operation in accordance with the applicable accounting standards.

4A1.32. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets of the arrangement. This must involve a separate vehicle, but this alone does not ensure the arrangement is a joint venture. Joint venturers will need to account for their interest in a joint venture as an investment, in accordance with IAS 28 *Investments in Associates and Joint Ventures*.

Agency relationships

4A1.33. Where a collaborative working arrangement does not constitute a joint arrangement, the participants will need to consider whether they are in an agency relationship.

4A1.34. The host of a cash pool will be in receipt of contributions from other members of the pool. The host must therefore consider whether these receipts constitute revenue. This is addressed in IAS 18, which defines the roles of principal and agent.

4A1.35. An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Where an entity does not have this exposure, it is acting as an agent on behalf of the principal.

4A1.36. Participants of a pooled budget must therefore agree whether the host is acting as an agent or principal. This is particularly important for the purposes of agreement of balances and elimination of intra-group transactions. The ultimate provider of services must also understand this relationship, as it will determine whom they consider to be their customer.

4A1.37. Indicators that the host is acting as an agent include:

- the members having agreed that each has the power to veto the engagement with any given provider
- the members jointly having the power to hold end-providers to account for delivery, cost, timeliness and quality, or
- all the risks associated with any given contract being borne equally by the members, for instance increases in the charges payable for services delivered by the provider.

4A1.38. In an agency relationship, the host does not treat amounts collected on behalf of the principal as revenue. These amounts simply pass through the agent, and are accounted for on a net basis.

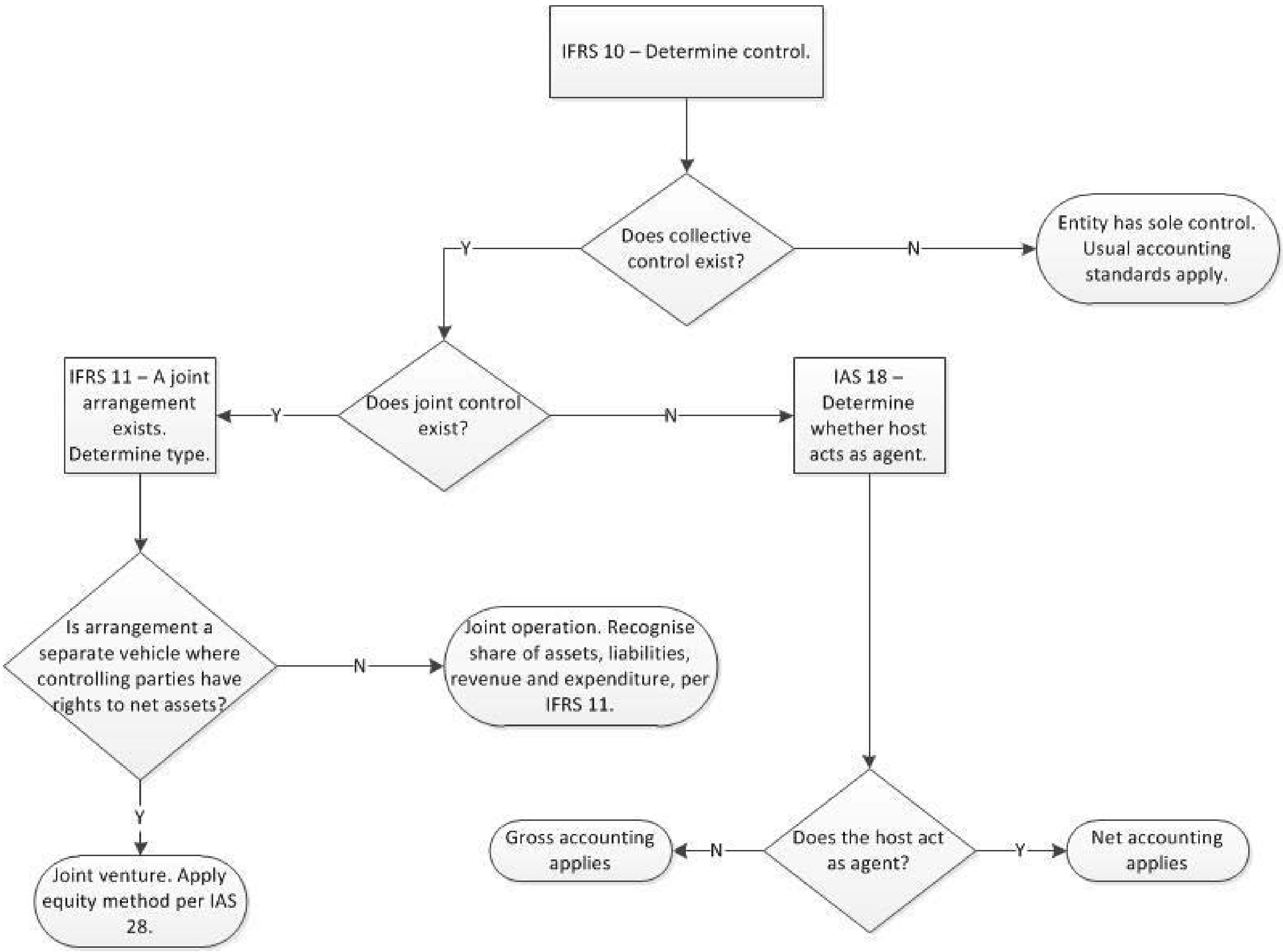
4A1.39. Indicators that the host is acting as a principal include:

- the members having contracted with the host in terms that make the host solely responsible for the delivery of services
- the members having agreed to delegate authority to the host to select end-providers and to manage the contract delivery with minimal or no reference to other members, or

- the host being subject to a greater degree of risk in respect of the contract performance than the other members, for instance having to absorb increases in the charges payable to end-providers.

4A1.40. Where the host acts as principal, it treats amounts collected from other parties to the pool as revenue. It accounts for these amounts, and payments to the ultimate provider, on a gross basis.

Figure 1 – Categorisation of collaborative working relationships



Accounting for joint arrangements and pooled budgets

4A1.41. Once the nature of an entity's interest in a collaborative working arrangement has been established, following the approach set out above, the relevant accounting guidance below must be applied.

Joint ventures

4A1.42. A joint venture must involve a separate vehicle. As pooled budgets and co-commissioning are unlikely to operate on this basis, this guidance does not address joint ventures in detail.

4A1.43. Where a joint venture exists, NHS bodies and DH ALBs (other than DH agencies) must account for their interest as an investment using the equity method, as set out in IAS 28. Core DH and DH agencies must apply IAS 28 in accordance with the adaptation set out in *Chapter 3 Annex 1: Standards and applicability to the DH group*.

Joint operations

4A1.44. The accounting treatment for an interest in a joint operation is set out in IFRS 11 paragraphs 20-23. Specifically, a joint operator must recognise:

(a) its assets, including its share of any assets held jointly

(b) its liabilities, including its share of any liabilities incurred jointly

(c) its revenue from the sale of its share of the output arising from the joint operation

(d) its share of the revenue from the sale of the output by the joint operation, and

(e) its expenses, including its share of any expenses incurred jointly.

4A1.45. An entity's share of the assets, liabilities, revenue and expenditure of the joint operation will be determined by the agreement establishing the arrangement.

4A1.46. Where the joint operation does not involve a separate vehicle, parties to the joint operation will not transact with it as an entity in its own right. Transactions are therefore with the entities that interact with the joint operation.

4A1.47. The effect of this is essentially the same as for net accounting arrangements, as described below. Each joint operator will recognise its share of any expenditure with providers as well as any payable or receivable balances. It will treat this expenditure as being with the providers, not the host. Although the host may be responsible for making payments to providers, it will only recognise expenditure for its own share of these payments and will net the amounts it pays on behalf of other members against the contributions it receives from them.

4A1.48. However, for agreement of balances purposes, joint operators and providers will treat the host as the counterparty for payables and receivables, in recognition of its role in settling these, and the host will recognise corresponding payables and receivables.

Other pooled budgets – net accounting

4A1.49. As described above, where joint control does not exist and the host of a pooled budget is acting as an agent, net accounting applies. This means that the receipts the host receives from other members of the pool are not recognised as income and are effectively netted off against the payments it makes on their behalf.

4A1.50. Each entity must account for its share of the transactions as though it were transacting directly with the ultimate counterparty. This applies to expenditure and revenue (although a typical co-commissioning arrangement will not generate revenue) with providers (including for agreement of balances purposes). However, , members of the pool will treat the host as the counterparty for payables or receivables, in recognition of its role in settling these, and the host will recognise corresponding payables and receivables with them.

4A1.51. Cash contributions to the pool are considered to be transactions with the host. Members must record a receivable from the host for any such amounts paid, until such time as the cash is used to pay providers. Likewise, the host must record corresponding payable amounts.

4A1.52. As an example, consider a pooled budget arrangement between a CCG and a local authority, where the local authority acts as host on an agency basis. The CCG contributes cash of £4m, whilst the local authority contributes cash of £6m. It is assumed that the activity of the pooled budget is shared in direct proportion to these amounts, although it is possible for an agreement to specify a more complex split.

4A1.53. The first transaction is the payment of £4m from the CCG to the local authority. Initially, the CCG recognises this as an amount receivable from the local authority. It does not recognise any expenditure at this stage. The local authority, likewise, recognises a payable to the CCG. Together with its own £6m contribution, the local authority now holds a cash pot of £10m.

4A1.54. The pooled budget members then commission services from providers (of which there may be examples in more than one sector). The local authority settles invoices worth £3m from the pool for services delivered. Under net accounting, it only recognises its own share of £1.8m as expenditure with providers. The remaining £1.2m relating to the CCGs share is treated as reducing the local authority's payable back to the CCG. The CCG, meanwhile, recognises £1.2m expenditure with providers and reduces its receivable from the local authority. The providers recognise a total of £3m income, split between the local authority and CCG as customers.

4A1.55. At the end of the reporting period, it is agreed that a further £1m of services have been delivered that have yet to be invoiced. The local authority and CCG accrue a further £0.6m and £0.4m expenditure with providers respectively. Additionally, the CCG recognises an accruals payable to the local authority. The local authority recognises a corresponding receivable from the CCG, and an accruals payable for the full £1m with the providers. The providers accrue corresponding income with the relevant counterparties, but recognise an accruals receivable from the local authority only.

4A1.56. When the local authority eventually settles the accrued amount in cash, it offsets its receivable from the CCG against the payable it raised upon receipt of cash into the pooled budget, reflecting the fact that this cash has now been used. The CCG mirrors this offsetting in its own accounts.

4A1.57. These transactions are illustrated in figure 2 below.

4A1.58. For agreement of balances purposes, it is important to note that the counterparty for income and expenditure may not be the direct source or recipient of a payment. Entities must consider the substance of each element of the arrangement and note the identity of the ultimate commissioner or provider. For this reason, it is essential that there is effective sharing of information to ensure entities can identify when to recognise a transaction and against which counterparty. Counterparties for payables and receivables will reflect the expected source and destination of cash payments.

Figure 2 – Illustration of net accounting in agency relationship

CCG contributes cash to pooled budget (hosted by LA)

CCG		**LA**	
Dr Receivable from LA	4.0	Cr Payable to CCG	4.0
Cr Cash	4.0	Dr Cash	4.0

LA contributes cash to pooled budget

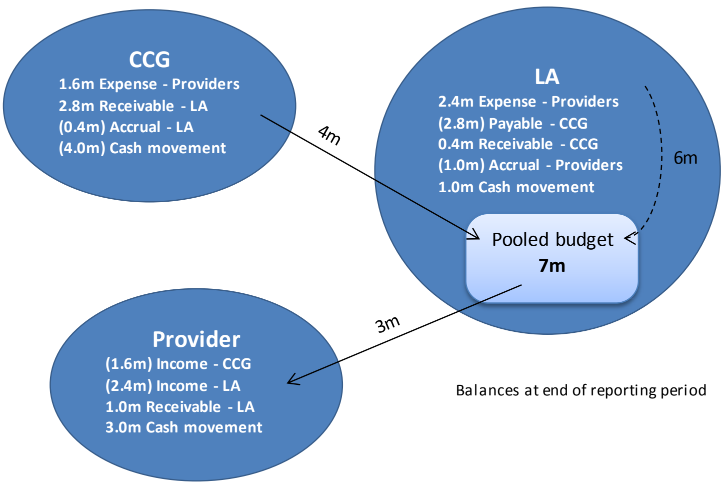
No accounting entries.

LA settles invoices for services from providers

CCG		**LA**	
Dr Services from providers	1.2	Dr Services from providers	1.8
Cr Receivable from LA	1.2	Dr Payable to CCG	1.2
		Cr Cash	3.0

Accrual for uninvoiced services from providers

CCG		**LA**	
Dr Services from providers	0.4	Dr Services from providers	0.6
Cr Accruals with LA	0.4	Dr Receivable from CCG	0.4
		Cr Accruals with provider	1.0



Other pooled budgets – gross accounting

4A1.59. Where joint control does not exist and the host of a pooled budget is acting as a principal, gross accounting applies. This means that the receipts the host receives from other members of the pool are treated as revenue and not netted off against the payments it makes to ultimate providers.

4A1.60. Each entity must account for its direct dealings with other parties to the pool as though no other party is involved. This effectively means that the host acts as provider to the other commissioners, whilst the ultimate providers consider only the host to be their customer.

4A1.61. Consider the same example as above, with the local authority now acting as principle. The first transaction is still the contribution by the CCG of £4m to the pooled budget, which it still treats as a receivable from the local authority – effectively a prepayment.

4A1.62. The local authority commissions services from providers in order, in turn, to provide services to the CCG. When it settles invoices worth £3m for services delivered, it recognises the whole amount as expenditure with providers. At the same time, it recognises £1.2m income from the CCG and reduces its payable to the CCG. The providers recognise all of their £3m income as being from the local authority.

4A1.63. When a further £1m of accrued services are identified, the local authority again recognises the whole amount as expenditure with providers, and also recognises a £1m accrual with providers. It then recognises £0.4m income from the CCG and reduces its payable to the CCG accordingly.

4A1.64. The CCG will then have recognised a total of £1.6m expenditure with the local authority, and will have reduced its receivable from them to £2.4m. It does not recognise any balances with the ultimate providers.

4A1.65. These transactions are illustrated in figure 3 below.

4A1.66. This approach reduces the need for information sharing, as each entity only recognises amounts in relation to the entities with which it deals directly. However, the timing of expenditure recognition by the CCG is still determined by the actual delivery of services by the ultimate provider.

4A1.67. Where a gross accounting arrangement exists, this may have the effect of grossing up transactions in the DH group account. This will occur, for instance, where a CCG recognises expenditure with a local authority for services that are ultimately delivered by an NHS provider. In this case, the group account will include both the expenditure and income arising from this, without any elimination. This is not an error, and simply reflects separate transactions with entities outside the group.

Figure 3 – Illustration of gross accounting where host acts as principal

CCG contributes cash to pooled budget (hosted by LA)

CCG		**LA**	
Dr Receivable from LA	4.0	Cr Payable to CCG	4.0
Cr Cash	4.0	Dr Cash	4.0

LA contributes cash to pooled budget

No accounting entries.

LA settles invoices for services from providers

		LA	
		Dr Services from providers	3.0
		Cr Cash	3.0

LA recognises income from CCG

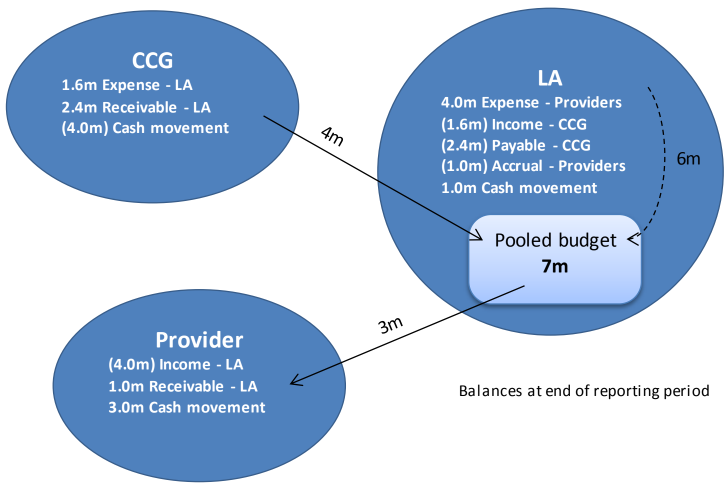
CCG		**LA**	
Dr Services from LA	1.2	Cr Income from CCG	1.2
Cr Receivable from LA	1.2	Dr Payable to CCG	1.2

Accrual for uninvoiced services from providers

		LA	
		Dr Services from providers	1.0
		Cr Accruals with provider	1.0

LA recognises income from CCG

CCG		**LA**	
Dr Services from LA	0.4	Cr Income from CCG	0.4
Cr Receivable from LA	0.4	Dr Payable to CCG	0.4



Cash management

4A1.68. The principles set out in HM Treasury's Managing Public Money apply to cash management of pooled budgets.

4A1.69. The following sections of the guidance are particularly important:

A5.6.2 Public sector organisations should where possible hold their cash balances with the Government Banking Service (GBS). This makes it possible to sweep the contents of these accounts to high level Exchequer accounts so that at the end of each working day the Debt Management Office (DMO) can assess the government's cash position overall.

A5.6.4 Good cash management means having the right amount of cash available when needed, without inefficient unused surpluses. Each public sector organisation should plan its own cash management efficiently.

4A1.70. CCGs operate on the Government Banking Service platform, whereas local authorities have separate banking arrangements. Therefore, where a local authority is host to a pooled budget, CCGs must not transfer cash to the local authority in any month which precedes the operational requirement to expend the cash with service providers. Any other payment arrangement, such as quarterly transfer, will not be appropriate.

4A1.71. Therefore, when transferring cash, the CCG must ensure that the host has provided verifiable evidence of the requirement to expend the cash with service providers in the month of transfer.

4A1.72. Where a CCG is hosting a pooled budget the existing Government Banking Service account must be used for all BCF receipts and payments. A CCG must not use any other banking facility for BCF related transactions.

4A1.73. HM Treasury's prohibition of drawing down cash in advance of need is particularly relevant to the management of pooled budgets. While a host entity, quite reasonably, might wish to maintain a cash float such that it is not compelled to use its own supplies of cash to fund pooled budget expenditure, the balance must be kept to the minimum required to ensure smooth operation of the arrangement. Pooled budget agreements should mandate appropriate information requirements so that the pooled budget manager is able to monitor contract spend, accurately profile future expenditure and cash requirements, and ensure that cash balances held in the pool are minimal.

4A1.74. Pooled budget members will need to maintain their own memorandum accounts that show day-to-day cash funding of the pool. These do not form part of entities' own statutory accounts.

BCF Cash Forecasting/Drawdown – Guidance for CCGs

4A1.75. The monthly CCG cash forecast/drawdown elements that relate to BCF will require separate disclosure on the CFF1 forms.

4A1.76. The following totals will require disclosure as part of the monthly CFF1 submission:

- total annual BCF cash plan with monthly phasing
- drawdown request for cash transfer to BCF pooled budgets hosted by local authorities
- drawdown request for payment to providers under CCG hosted BCF pooled budget.

Drawdown request for BCF cash payments not under pooled budget arrangements

4A1.77. CCG monthly BCF annual cash drawdown requests will be reviewed centrally and via regional teams against Revenue Resource Limits and challenged where necessary. This will help ensure that BCF drawdown requests are not in advance of monthly operational need to pay providers.

Other reporting requirements

4A1.78. A party to a pooled budget may include details of the arrangement in its financial statements, including a note of its share of the income and expenditure and balances of the pooled budget. The extent of any disclosure required will depend on materiality and on the accounting standards applied. Either way, working papers will be needed to support accounts entries that result from pooled budget activities.

4A1.79. Under section 75 and associated regulations (SI 2000 No. 617, *NHS Bodies and Local Authorities Partnership Arrangements Regulations 2000*), a pooled budget manager is required to submit quarterly and annual reports to other members to cover the income to, and expenditure from, the pooled fund, and other information by which the members can monitor the effectiveness of the arrangements.

4A1.80. This minimum requirement will not be sufficient to meet the needs of NHS pooled budget members and providers, as:

- timeframes are not specified
- financial reporting requirements of CCGs far exceed the headline reporting of income and expenditure, and
- the regulations are silent on the data requirements of NHS providers, which mirror those of NHS members.

4A1.81. CCGs need to fulfil cash management requirements, and so will need reports from host bodies on a monthly basis.

4A1.82. NHS providers will need statements from the pooled budget host to ensure that providers can identify their correct counterparties and transactions and balances with them. These statements will be required on at least a quarterly basis and in time to meet deadlines for agreement of balances exercises and submission of accounts.

4A1.83. Parties to a pooled budget must therefore agree appropriate reporting arrangements.

New Models of Care

4A1.84. Under New Models of Care proposals, some NHS bodies will enter into arrangements to provide integrated care on a ‘whole population’ basis. This is likely involve collaborative working agreements that may constitute joint arrangements and may involve separate vehicles.

4A1.85. Until the organisational forms of providers under these arrangements become clear, it is not possible to provide detailed accounting guidance. However, it is to be expected that the accounting will follow the principles set out in this annex.

- A5.6.4 Good cash management means having the right amount of cash available when needed, without inefficient unused surpluses. Each public sector organisation should plan its own cash management efficiently.

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

Introduction

5.1. IAS 1, *Presentation of Financial Statements*, requires the preparation of a Statement of Comprehensive Income (SoCI). In the public sector context, this is appropriate for entities that operate on a cost recovery basis, including NHS providers. Entities that receive funding to incur expenditure on behalf of the government, including NHS commissioners, will prepare a Statement of Comprehensive Net Expenditure (SoCNE) which follows the principles of IAS 1 as adopted by HM Treasury. For organisations preparing a SoCI the option in IAS 1 to present this information as two separate statements has been withdrawn.

5.2. The standard does not prescribe the structure of the statement, but simply sets out the items which must be disclosed on the face of the statement. Other comprehensive income should be analysed between:

(a) amounts that will not be reclassified subsequently to income and expenditure (e.g. revaluations of property, plant and equipment), and

(b) amounts that will subsequently be reclassified to income and expenditure (e.g. movements in the fair value of available-for-sale financial assets).

5.3. This chapter addresses the significant application issues that affect the DH group. It also outlines the additional requirements for group consolidation in general. As described in paragraph 4.3, different sectors within the DH group may have differing reporting formats. As a consequence this financial statement may be referred to as the SoCI in their entity specific guidance. This chapter will consistently use SoCNE to refer to both statement formats, except in situations that deal specifically with NHS providers.

Income

5.4. IAS 18, *Revenue*, applies, and the classification of types of income is shown in the example accounts formats. Entities that receive Parliamentary Funding (special health authorities and DH agencies) or receive Grant-in Aid (DH NDPBs) must separate these funding streams from general income as it is possible to receive cash from DH in either or both categories. This also applies to funding from NHS England received by CCGs. The *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 customers, using usual order and invoicing systems.

5.5. As detailed in paragraph 4.36, the “gross” accounting principle applies to intra-NHS transactions. By default, income and expenditure are recorded separately and not netted off. For some transactions (for example, where a body acts as an agent for another), it is appropriate to account “net” with the agent excluding both income and expenditure from its books.

Income from patient care activities (NHS providers)

5.6. NHS provider income should be classified as income from patient care activities when it is earned under contracts with NHS bodies and others for the provision of patient-related healthcare services. Where an NHS provider receives additional revenue contributions from central bodies for the delivery of healthcare services this should be recognised as revenue and disclosed in a separate row in the analysis of income from patient care activities. Income from non-patient-care services should be classified as ‘other operating income’. Where an NHS provider receives merger support funding from DH, this should be disclosed in a separate row in the analysis of other operating income.

5.7. “Non-NHS – other” records all income for the provision of patient care services from sources other than those detailed above, including income from Scottish, Welsh and Irish bodies.

5.8. Income arising from the activities of subsidiaries consolidated into the accounts of the NHS provider should be classified on the same basis, regardless of how is it classified in the accounts of the subsidiary.

5.9. Where ‘other income’ is material, additional disclosure should be made in the accounts as to its source. Even where ‘other income’ is not material the summarisation schedules may require additional analysis, as it may include items that are material for the consolidation. Paragraph 5.52 describes the other forms of income that may require disclosure.

Injury costs recovery (ICR) revenue

5.10. ICR revenue should be accrued only when form NHS2 has been received and it has been confirmed from the NHS provider’s records that injury treatment has been given. If there are discrepancies that need investigating, income should not be accrued. Each year, the Compensation Recovery Unit (CRU) advises a percentage probability of not receiving the income. For 2016-17 this figure is 22.94%.

5.11. Therefore, if it is material, 22.94% (currently) of accrued ICR revenue should be included within the provision for impairment of receivables. However, where NHS 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. As the NHS Injury Cost Recovery Scheme derives from statute rather than contracts, it does not fall within the scope of financial instruments and this provision does not need to comply with the “objective evidence of impairment” requirement when considering impairment of financial assets under IAS 39.

Partially completed treatments spells and maternity pathway transactions

5.12. Where partially completed treatment spells arise, the NHS provider and its commissioning counterparty should consider the terms of the contract that they have entered into to determine how revenue should be recognised in accordance with IAS 18, *Revenue*.

5.13. From the provider viewpoint, where it is certain to receive the income for a treatment or spell once the patient is admitted and treatment begins, the income for that treatment or spell can start to be recognised at the time of admission and treatment starting. Costs of treatment are then expensed as incurred.

5.14. Income relating to those spells which are partially completed at the financial year end should be apportioned across the financial years on a pro rata basis. This basis may be the expected or actual length of stay or may be based on the costs incurred over the length of the treatment. It is for the NHS provider and commissioner to establish and agree a suitable pro rata basis, and where material, disclose this in the accounting policy note.

5.15. Guidance issued by NHS England, Monitor (operating as NHS Improvement) and DH addresses the issue of accounting for maternity pathway commissioning in the light of a potential non-symmetrical treatment by commissioners and providers. This guidance is available here[37].

Government grants (IAS 20) and donations

5.16. NHS bodies should apply IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, to the treatment of government and other grants, with the following interpretations:

- the option in IAS 20 to deduct the grant from the carrying value of the asset is not permitted
- grant income relating to assets is recognised within income when the entity becomes entitled to it. Where the grantor imposes conditions about the use and application of the grant or donation, the grant is recognised as deferred and carried forward to future financial years to the extent that the condition has not yet been met.

5.17. A grant for an asset may be received subject to a condition that it is to be returned to the grantor if a specified future event does or does not occur. For example, a grant may need to be returned if the entity ceases to use the asset purchased with that grant for a purpose specified by the grantor. In these cases, a return obligation does not arise until

[37] https://whitehall-admin.production.alphagov.co.uk/government/uploads/system/uploads/attachment_data/file/295218/Maternity_pathways_accounting_140314.pdf

such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such a condition would not therefore require the grant to be treated as deferred.

5.18. DH group bodies should account for donations by applying the same principles as for government grants above. Where an NHS provider consolidates NHS charitable funds, donations received from those funds will be eliminated on consolidation in the local group accounts.

5.19. Where a group body is a member of the EU Greenhouse Gas Emission Allowance Trading scheme and it has been issued allowances at less than fair value or current value in existing use then the difference between the amount paid and the fair value or current value in existing use represents a government grant that is subject to a condition, as per the interpretation of IAS 20. The income element should be deferred and released to income as the liability to emit greenhouse gases is recognised in expenses

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

Profits and losses on disposal of non-current assets

5.21. Where non-current assets are disposed of, but the activities which they supported are continuing, then any profit or loss on disposal should be recognised in operating income or operating expenses as appropriate. Where the asset has been disposed of as part of the disposal or discontinuance of an activity, then any profit or loss on disposal should be shown on the face of the SoCNE within the amount for "Surplus/(deficit) of discontinued operations and the gain/(loss) on disposal of discontinued operations", see paragraphs 5.41 to 5.49 for definition of continuing/discontinued operations and paragraphs 6.17 and 6.19 for further guidance on asset valuation and revaluation of surplus assets.

Overseas visitors

5.22. NHS providers must disclose the following in the notes to the accounts, relating to treatment of overseas visitors:

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

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

5.24. Due to ministerial interest in this area, this disclosure (all four numbers) must be included in NHS foundation trusts' accounts where income from overseas visitors (where the patient is charged directly by the NHS provider) exceeds £100,000 in the year and in NHS trusts' accounts regardless of amount. NHS foundation trusts with overseas visitors income below £100,000 are encouraged to include the disclosure in their accounts, but this is not mandatory.

5.25. Further guidance on identifying when income should be recorded as being from overseas visitors can be found in the DH issued *Guidance on implementing the overseas charging regulations 2015*[38].

Operating expenses

Analysis of operating expenses

5.26. IAS 1 requires an analysis of operating expenses to be disclosed on either the face of the SoCNE or in a note to the accounts. For consistency across the DH group, this analysis should be presented in a note to the accounts. This analysis should reflect the nature of the expenditure, for example employment costs, supplies and services. If management considers that an analysis by function is more relevant, it may include such disclosure in an additional note to the accounts.

5.27. Consideration should also be given to the analysis required for the summarisation schedules. In some cases, it will be necessary to report non-material items in the summarisation schedules as they may be material in aggregate upon sector/group consolidation. For example, further analysis of ‘other operating expenses’ will be required. Fees payable to the external auditor should be analysed between audit services and other services as required by paragraph 5.58. The analysis of operating expenditure must also include a separate row recording non-staff related internal audit expenditure, e.g. where services are provided by a third party, including local counter fraud services. NHS foundation trusts should additionally disclose staff related internal audit expenditure, based on the analysis in FTC summarisation schedules.

5.28. The analysis of operating expenses should also include expenditure on consultancy. Chapter 5 Annex 1 of the *GAM* provides a definition of ‘consultancy’ expenditure.

[38] https://www.gov.uk/government/publications/guidance-on-overseas-visitors-hospital-charging-regulations

Employee benefits expense

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

Retirement benefits

5.30. Retirement benefits should be accounted for in accordance with IAS 19 (Revised 2011). Table 6.2: IAS 19 of the *FReM* requires the NHS Pensions Scheme to be accounted for as a defined contribution scheme. DH group bodies paying in to this scheme should therefore recognise an expense equal to their employer contribution to the scheme during the year.

5.31. Where DH group bodies are members of other defined benefit schemes, they will need to assess whether these schemes should be accounted for as defined benefit schemes or as defined contribution schemes.

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

Termination benefits

5.33. Termination benefits include, for example, redundancy costs, termination gratuities and pension enhancements on termination. Termination benefits are only those where the event giving rise to the benefit is the termination of the employment by

- the employer, or
- an employee deciding to accept the employer’s offer of benefits in exchange for termination.

5.34. Benefits that are conditional on future service by an employee are not termination benefits.

5.35. Termination benefits are recognised at the earlier of:

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

PDC dividends payable (NHS providers)

5.36. The disclosure of PDC dividends payable on the face of the SoCI is the total of PDC dividends payable by the trust in respect of the financial year.

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

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

	Total public dividend capital and reserves	X
Less:	Net book value of donated assets and lottery-funded assets	(X)
Plus:	The value of any deferred income balance that funds a donated asset or lottery-funded asset*	X
Less:	Charitable funds (before any consolidation adjustments for charitable funds)	(X)
Less:	Net cash balances in GBS accounts (excluding cash balances in GBS accounts that relate to a short-term working capital facility)	(X)
Less:	Outstanding accrued PDC Dividend income	(X)
Plus:	Outstanding accrued PDC Dividend expenditure	X
		X

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

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

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

Example calculation:

	£'000
Opening capital and reserves (including GBS and NLF balances and prior to consolidation of charitable funds)	123,000
Less: Opening donated asset net book value	(3,000)

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

Analysis of income and expenditure: programme and administration

5.41. The *FReM* no longer requires separate disclosure of administration and programme income and expenditure in the financial statements, and DH group bodies should not include this analysis in their accounts. However, the department is still required to report administration outturn as part of the Parliamentary accountability report. There therefore remains a requirement to collect separate programme and (where relevant) administration income and expenditure details within the summarisation schedules and agreement of balances exercises. DH group bodies should ensure these figures are consistent with the aggregate figures in their published accounts.

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

Notes to the SoCNE

Operating segments

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

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

- for which discrete financial information is available.

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

5.45. Segmental transactions should be disclosed on the same basis as that used for internal reporting to the CODM. This means that if they are not recognised and measured on an IFRS basis for internal reporting, then they do not need to be restated to IFRS prior to disclosure. However, reconciliations must be provided between the aggregate amounts disclosed for reportable segments and the totals included in the financial statements. Key adjustments may include the removal of internal income and expenses, any necessary restatement to an IFRS basis and the inclusion of amounts in respect of the activities of operating segments which did not meet the criteria for a reportable segment.

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

Discontinued operations

5.47. DH group bodies should review their activities against IFRS 5 to determine whether any activities meet the definition of a discontinued operation, and if so, to reclassify it as such and measure and disclose it accordance with that standard.

5.48. Following the requirements of the *FReM*, activities that are transferred to other bodies within the boundary of Whole of Government Accounts are 'machinery of government changes'. They should therefore be treated as continuing operations, and in the financial year of disposal should be removed from the accounts in accordingly.

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

Income generation activities

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

5.51. In addition to reporting operating segments under IFRS, Treasury's *FReM* requires bodies to provide additional disclosures for fees and charges raised under legislation, where the full cost exceeds £1 million or the service is otherwise material in relation to the accounts. This includes NHS income generation activities. Where the additional disclosures are shown separately in the “Operating Segments” note, they do not need to be repeated. Where an entity has reported on fees and charges in its annual report, there is no requirement to duplicate the fees and charges disclosure as a separate note to the accounts (NHS foundation trusts should refer to the *ARM 2016-17* for the annual reporting requirements).

Income

5.52. The main relevant standard is IAS 18, *Revenue*. DH group bodies will have differing disclosure requirements for income, based on materiality and sector specific transaction – see paragraphs 4.4 to 4.14.

5.53. NHS providers should also refer to paragraphs 5.6 to 5.11 for the treatment of revenue from patient care activities.

5.54. DH group bodies are reminded of the default gross accounting position, as described in paragraphs 4.36 and 5.5.

Operating expenses

5.55. The relevant standards are IAS 1, *Presentation of Financial Statements*, paragraph 99 and IFRS 7, *Financial Instruments: Disclosures*, paragraph 20(e). DH group bodies will have differing disclosure requirements for expenditure, based on materiality and sector specific transaction – see paragraphs 4.4 to 4.14.

Audit fees

5.56. This is the total of fees paid or payable to the external auditor for the financial year in question and should be analysed between statutory audit services and other services in accordance with SI 2008 No.489, *The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008*[39]. These regulations were amended by SI 2011 No.2198, *The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011*[40]. Further information is provided in TECH14/13FRF issued by the ICAEW. Non-audit fees payable to the external auditor (other auditors remuneration) are analysed across the following headings:

a) the auditing of accounts of any associate of the trust

b) audit-related assurance services

c) taxation compliance services

d) all taxation advisory service not falling within item 3 above

e) internal audit services

[39] http://www.legislation.gov.uk/uksi/2008/489/contents/made

[40] http://www.legislation.gov.uk/uksi/2011/2198/contents/made

f) all assurance services not falling within items a) to e)

g) corporate finance transaction services not falling within items a) to f) above, and

h) all other non-audit services not falling within items b) to g) above.

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

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

Auditor liability limitation agreements

5.59. In accordance with SI 2008 no.489, *The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008*, where a DH group body’s contract with its auditors provides for a limitation of the auditor’s liability, the principal terms of this limitation should be disclosed in a note to the accounts.

Employee benefits

5.60. This note is a requirement of the *Companies Act 2006*, section 411[41]. IAS 19, *Employee Benefits*, is relevant. As described in the previous sections on income and operating expenditure, different local requirements may necessitate completion of the summarisation schedules in a way which is most appropriate in that sector. The sector specific guidance on completion of the summarisation schedules and example accounts formats (where appropriate) should be reviewed.

5.61. Employee benefits should be shown in the accounts note in a single column for all categories of staff. Total figures should match those shown for employee benefits in the staff costs disclosure in the Staff Report part of the annual report.

5.62. The figures should exclude non-executive directors/ lay Governing Body Members but include executive board members/Governing Body Members and staff recharged by other DH group bodies.

Ill-health retirements

5.63. NHS bodies are required to disclose the number of early retirements agreed on the grounds of ill-health during the year, together with the estimated resulting additional pension liabilities borne by the relevant pension scheme. DH will provide these figures

[41] http://www.legislation.gov.uk/ukpga/2006/46/section/411

when they become available from NHS BSA – NHS Pensions. This is likely to be after the submission of draft accounts as data is not available earlier.

Pension costs

5.64. The relevant standard is IAS 19, *Employee Benefits*. Entities with employees that are members of either the NHS Pensions Scheme or the Principal Civil Service Pension Scheme unfunded, defined contribution pension schemes should apply the *FReM* adaptation to IAS 19.

5.65. Disclosure note requirements are provided each year by NHS BSA (NHS Pensions Scheme), and by Cabinet Office (Principal Civil Service Pension Scheme). NHS Pensions Scheme requirements will be published by the relevant national bodies. Requirements for entities with employees in the Principal Civil Service Pension Scheme are included in the relevant illustrative accounts published by HM Treasury, with changes being published on http://www.civilservicepensionscheme.org.uk/employers/employer-pension-notices/ as Employers Pensions Notices (EPN).

5.66. Entities with employees who are members of other pensions schemes (e.g. Local Government Pensions Schemes), should refer to *FReM* paragraph 9.1.1 in the first instance to determine whether the scheme is a public sector pension scheme under which the IAS 19 adaptation applies. Otherwise, they will need to assess how the scheme operates to determine the correct accounting and disclosure requirements

Investment revenue

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

Other gains and losses

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

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

5.69. As part of the income disclosures, NHS foundation trusts should also disclose the level of income from activities that has arisen from commissioner requested and non-commissioner requested services (as set out in the NHS foundation trust's Provider Licence and available on NHS Improvement's NHS foundation trust directory). This analysis should add up to the total income from activities set out on the face of the SoCI. Where an NHS foundation trust has been placed in Trust Special Administration, substitute 'commissioner requested' with 'location specific'.

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

5.70. Where land and buildings assets used in the provision of commissioner requested services have been disposed of during the year, a narrative disclosure is required. This should include the net book value of the asset, the amount of any sale proceeds or other consideration receivable, and an explanation of the means by which the NHS foundation trust will continue to meet its obligations to provide commissioner requested services. This might include details of replacement assets, use of under-utilised existing assets or leasing arrangements.

Directors' remuneration and other benefits (NHS foundation trusts)

5.71. The requirements under section 412 of the *Companies Act 2006* to disclose information on directors' remuneration are considered to be satisfied by the disclosures made in the notes to the accounts and in the Remuneration Report.

5.72. The requirements for disclosing directors' other benefits, where relevant, are set out in section 413 of the *Companies Act 2006*, and comprise:

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

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

Chapter 5 Annex 1: Consultancy definition

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[42]. Such assistance will be provided outside the 'business-as-usual' environment when in-house skills are not available and will be of no essential consequence and time-limited. Consultancy may include the identification of options with recommendations, or assistance with (but not delivery of) the implementation of solutions.

Finance Consultancy	The provision of objective finance advice including advice relating to corporate financing structures, accountancy, control mechanisms and systems. This includes both strategic and operational finance.
IT/IS Consultancy	The provision of objective IT/IS advice including that relating to IT/IS systems and concepts, strategic IT/IS studies and development of specific IT/IS projects. Advice related to defining information needs, computer feasibility studies, making computer hardware evaluations and to e-business should also be included.
Strategy Consultancy	The provision of strategic objective advice including advice relating to corporate strategies, appraising business structures, Value for Money reviews, business performance measurement, management services, product or service design, and process and production management.
Legal Consultancy	The provision of external legal advice and opinion including advice in connection with the policy formulation and strategy development particularly on commercial and contractual matters.
Property & Construction Consultancy	Provision of specialist advice relating to property services and estates including portfolio management, design, planning and construction, tenure, holding and disposal strategies.
Human Resource, Training & Education Consultancy	The provision of objective HR advice including advice on the formulation of recruitment, retention, manpower planning and HR strategies, and advice and assistance relating to the development of training and education strategies.

[42] This and the following are taken from the Cabinet Office definition of consultancy, which can be found at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/405538/6.1_Cons_definitions.pdf

Technical Consultancy	The provision of technical advice including the provision of technical studies, prototyping and technical demonstrators, concept development, project and task based technical advice.
Marketing & Communications Consultancy	The provision of objective marketing and communications advice including advice on the development of publicising and the promotion of the Department’s Business Support programmes, including advice on design, programme branding, media handling, and advertising.
Organisation & Change Management Consultancy	Provision of objective advice relating to the strategy, structure management and operations of an organisation in pursuit of it purposes and objectives. Advice related to long range planning, re-organisation of structure, rationalisation of services, general business appraisal of organisation should also be included.
Procurement Consultancy	The provision of objective procurement advice including advice in establishing procurement strategies.
PPM Consultancy	The provision of advice relating to ongoing programmes and one-off projects. Advisory 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.

6. Statement of Financial Position (SoFP)

Format of the SoFP

6.1. IAS 1, *Presentation of Financial Statements*, refers. The content and format of the SoFP is set out in the example accounts (see paragraph 4.2).

6.2. Assets and liabilities must be analysed as "current" and "non-current" on the face of the SoFP.

6.3. IAS 1 adds that "the operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents" and that "when the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months". The standard requires that where an asset or liability line in the SoFP combines amounts that fall due within and beyond one year, the split must be disclosed in the notes.

Taxpayers Equity and Other Reserves

6.4. The net total of assets and liabilities should equal the total taxpayers equity (plus charitable funds where relevant) used to finance the entity (see paragraph 7.1 Statement of Changes in Taxpayers Equity (SoCTE)). The SoFP should show how the net total of assets and liabilities is financed through the entities reserves.

6.5. The SoFP/SoCTE may include one or more of the following reserves:

- General fund/reserve (not NHS providers)
- Income and Expenditure/Retained Earnings reserve (NHS providers)
- PDC reserve (NHS providers only)
- Revaluation reserve
- Merger reserve (in rare cases for legacy transactions)
- Available for sale investment reserve
- Other reserves
- Charitable fund reserves (where charitable funds are consolidated).

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

Notes to the Statement of Financial Position

Property, plant and equipment

6.7. The main relevant standards are IAS 16, *Property, Plant and Equipment*, and IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. DH group bodies are required to follow the revaluation model. *FReM* guidance (Table 6.2) and the associated guidance on the Treasury website refers. In this guidance, Chapter 6 Annex 3 - *Valuation Issues* discusses revaluation issues in the DH group context.

6.8. IFRS 13, *Fair Value,* is adopted in full in the public sector; however, IAS 16 and IAS 38 have been adapted and interpreted for the public sector context to limit the circumstances in which a valuation is prepared under IFRS 13.

6.9. Assets which are held for their service potential and are in use (i.e. operational assets used to deliver either front line services or back office functions) should be measured at their current value in existing use.

6.10. For non-specialised assets, current value in existing use should be interpreted as market value in existing use which is defined in the Royal Institution of Chartered Surveyors (RICS) Red Book as Existing Use Value (EUV). However, where non-property assets are short-lived, or are of low value (or both) it is acceptable for such assets to be carried at depreciated historic cost as this will be a reasonable proxy for current value in existing use.

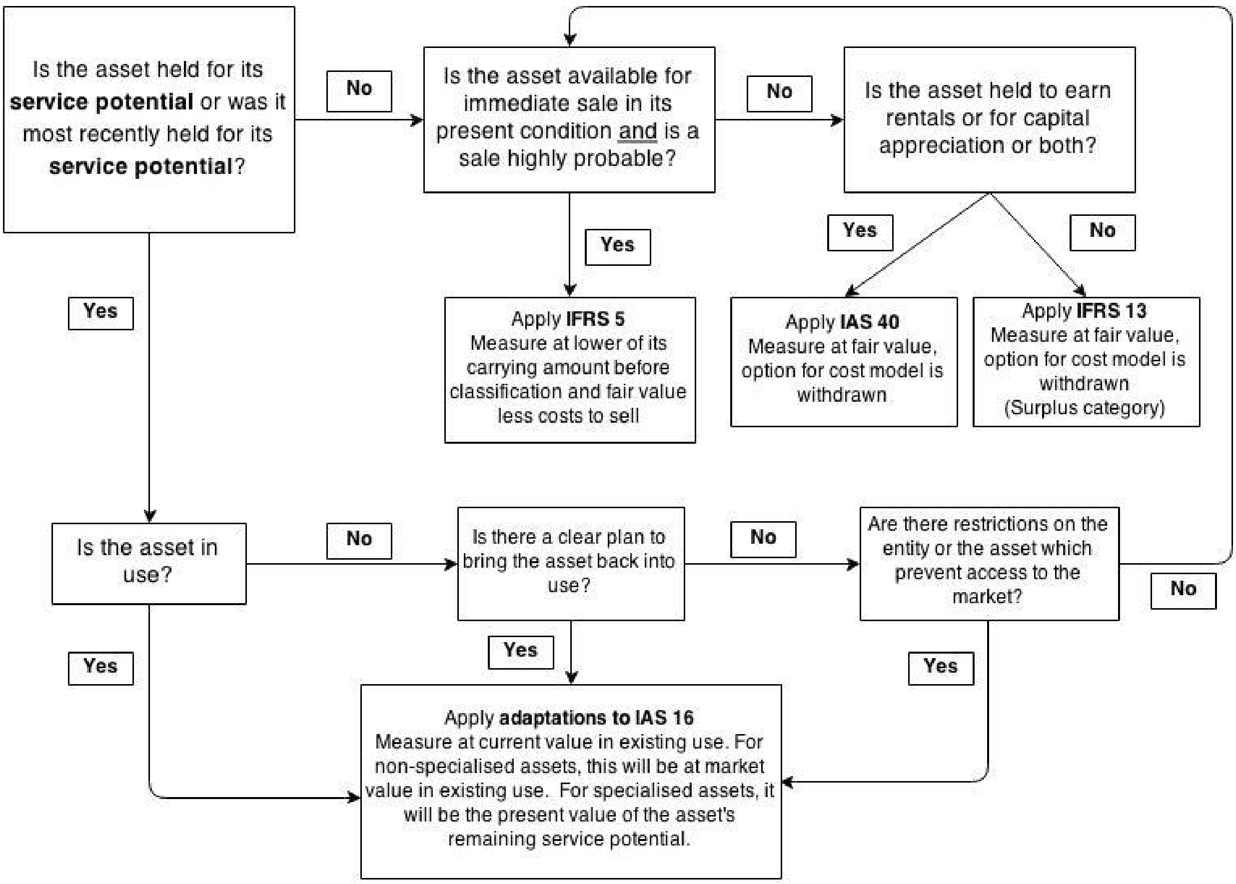
6.11. For specialised assets, current value in existing use should be interpreted as the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential. The methodology used will be depreciated replacement cost on a modern equivalent asset basis.

6.12. Assets which were most recently held for their service potential but are surplus should be valued at current value in existing use if there are restrictions on the entity or the asset which would prevent access to the market at the reporting date. If the entity could access the market then the surplus asset should be valued at fair value using IFRS 13.

6.13. In determining whether such an asset which is not in use is surplus, management should assess whether there is a clear plan to bring the asset back into future use as an operational asset. Where there is a clear plan, the asset is not surplus and the current value in existing use should be maintained. Otherwise, the asset should be assessed as being surplus and valued under IFRS 13.

6.14. Assets which are not held for their service potential should be valued in accordance with IFRS 5 or IAS 40 depending on whether the asset is actively held for sale.

6.15. Where an asset is not being used to deliver services and there is no plan to bring it back into use, with no restrictions on sale, and it does not meet the IAS 40 and IFRS 5 criteria, these assets are surplus and should be valued at fair value using IFRS 13.



6.16. In summary:

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

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

6.17. Reclassification of an asset between the above categories should reflect a clear decision to change the basis on which the asset is held – for instance a decision to actively market an asset for sale in accordance with the criteria set out in IFRS 5, or to take an asset out of use and treat it as surplus. It is not necessary to reflect theoretical intermediate stages, for instance to consider an asset to become surplus between being in use and being sold if there is no appreciable time gap. There is therefore no requirement to revalue an asset immediately prior to sale or immediately prior to reclassification to Non-current Assets Held for Sale.

6.18. DH group bodies must ensure consistency across disclosure notes when reclassifying assets, with the carrying amount of the asset transferring from PPE to Assets Held for Sale being reflected in both disclosures. Similarly, where common reclassifications occur within the PPE note (for example, from assets under construction to operational buildings) the total of reclassifications across all asset types should be zero.

6.19. Where the entity wishes to sell an asset which does not meet the IFRS 5 criteria for an asset held for sale, the sale should be recorded against the PPE note. If disposing directly from the PPE note, the carrying amount of the asset on disposal will be the amount at which it was most recently held whilst in use, and sale proceeds differing from this amount will be recognised as a profit/loss on disposal.

6.20. The example accounts format provides the categorisation of PPE into the required headings. As a minimum, DH group bodies should establish and report on the following classes of PPE:

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

6.21. Specific guidance on accounting for asset transfers that form part of “machinery of government” transfers or “transfers of functions” can be found from paragraph 4.75. Where non-current assets are transferred outside a transfer of functions or machinery of government change, the transfer value should be at fair value in line with IFRS 3 (any revaluation to be carried out in the transferor’s accounts). For such transfers, DH permits transacting DH group bodies to sell and purchase assets provided that: (a) the parties record mirror sale/purchase transactions; and (b), the transaction does not involve the issue or repayment of DH funding (i.e. for NHS trusts and NHS foundation trusts, PDC is not issued or repaid in connection with the transaction).

6.22. Charges on properties will result in the property being included in this note if the conditions of IFRIC 12 (as adapted by the *FReM*) or IFRIC 4 apply. See the guidance ‘*Accounting under IFRS for properties where a body holds a legal charge*’ on the Download/IFRS section of the Finman[43] website.

Cost & Valuation

6.23. Points to note for the cost or valuation section of the table:

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

[43] http://www.info.doh.gov.uk/doh/finman.nsf/ManualDownload?OpenView

Example requirements on revaluation of PPE

Prior to revaluation:		**£000**
	PPE asset at cost/valuation	1,000
	Accumulated depreciation	(400)
	Net book value	600
Asset is revalued to £1.5m. After revaluation:		
Cost/valuation		
	PPE asset at cost/revaluation	1,000
	Gain on revaluation	500
	PPE asset at revalued amount	1,500
Accumulated depreciation		
	Carry forward balance	(400)
	Gain on revaluation	400
	Depreciation after revaluation	*Nil*
Net book amount after revaluation		***1,500***
Amount carried to the revaluation reserve		***900***

Note: A revalued asset may attract further depreciation charges after "zeroing" at the date of revaluation, such that (depending on the date of revaluation) some cumulative depreciation may still be attached to the asset at the year-end.

- **Revaluation gains and impairment losses**. DH group bodies are required to ensure that assets are carried at a valuation using a suitable method selected by them. Where indices are used, these should be widely recognised and in common use. The source of the index should be disclosed in the narrative to the note in the accounts. The revaluations line should only be used for upward revaluations, and even so, only when the upward revaluation is not the reversal of an impairment, such that:
    - Where a revaluation results in an increase in an asset's value, this increase should be credited to the revaluation reserve unless it reverses a revaluation loss previously recognised in operating expenses. In this case

it should be credited initially to operating expenses and thereafter to the revaluation reserve

- Where a revaluation (or impairment) results in a reduction in an asset's value, this reduction should be charged initially to the revaluation reserve to the extent that there is an available balance in respect of the asset, and thereafter it should be charged to operating expenses. See paragraph 6.44 for further details on the treatment of impairments. Negative revaluation reserve balances for individual assets are not permitted
- Reversals of impairments should bring the asset back to the value it was held at prior to impairment, and reverse earlier impairments taken to reserves. Subsequent increase in asset value should be treated as a revaluation (an asset should not be "positively" impaired). See paragraph 6.44 for further details on the treatment of impairments.

Depreciation

6.24. Depreciation charged on asset categories should be disclosed separately from the cost/valuation of the asset. The opening balance as at 1 April XX should equal the total depreciation carried forwards from the previous year.

6.25. Movements in depreciation other than that charged due to the reduction in the useful life of the asset should be separately disclosed, such as through impairment or revaluation, reclassifications, etc. The example accounts formats will provide details of relevant lines.

Capitalisation threshold of non-current assets – de minimis limits

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

6.27. The FT *ARM* previously allowed NHS foundation trusts flexibility to set a lower capitalisation threshold. Any foundation trusts for whom adoption of the above threshold would be a change in accounting policy should consider whether the impact is sufficiently material to require prior year restatement in line with IAS 8.

Grouped assets

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

- the items are functionally interdependent
- the items are acquired at about the same date and are planned for disposal at about the same date
- the items are under single managerial control, and
- each individual asset thus grouped has a value of over £250.

IT assets

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

Initial equipping and setting-up costs of a new building

6.30. 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 IAS 16 terms.

Additional Disclosure requirements

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

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

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

Heritage assets

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

6.35. It is not expected that DH group bodies will hold such assets as this definition excludes assets which are held for operational purposes. Where an entity does hold a heritage asset then FRS 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, must be followed.

Intangible Non-Current assets

6.36. The main relevant standards are IAS 38, *Intangible Assets*, and SIC 32, *Intangible Assets – Web Site Costs*.

6.37. Guidance under Property, Plant and Equipment (PPE) is generally applicable. The same points as for PPE apply in respect of donated assets, disposals, reclassifications, reclassified as held for sale, impairments and reversals of impairments.

6.38. Where there is an active market, intangible assets must be carried at a market value. In all other respects the guidance above for PPE applies.

Carbon Reduction Commitment (CRC) Energy Efficiency Scheme allowances

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

6.40. CRC allowances held for use are accounted for as intangible assets, and analysed in the SoFP between current and non-current assets, as appropriate. If the allowances are held for trading, then they are accounted for as current assets.

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

6.42. Where there is evidence of an active secondary market for CRC allowances, they should be measured subsequently at fair value.

Economic Lives of Non-Current Assets

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

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

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

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

6.45. Where an impairment loss arises from a clear consumption of economic benefits or service potential, the loss is recognised in operating expenses (*FReM* Table 6.2: IAS 36). Examples of such impairments include losses as a result of loss or damage, abandonment of projects, gold-plating, and use of the asset for a lower specification purpose (*FReM* paragraph 7.3.3).

6.46. However, to ensure that the reserves are in the same position as if IAS 36 applied, an amount should be transferred from the revaluation reserve to the income and expenditure reserve. This transfer is the lower of:

- the amount of the impairment loss charged to expenses, or
- the balance on the revaluation reserve in respect of the asset.

6.47. An impairment that arose from a loss of economic benefits or service potential can be reversed if, and to the extent that, the circumstances that gave rise to the loss subsequently reverse.

6.48. For the avoidance of doubt, an increase in an asset's valuation due to an increase in general market prices is a separate event and does not represent a reversal of a previous economic benefit/service potential impairment. It should therefore be accounted for as a revaluation gain rather than a reversal of a past economic benefit impairment.

6.49. Where an economic benefit/service potential impairment is reversed, the amount of the reversal recognised in expenditure is limited to the amount that restores the asset's carrying value to that it would otherwise have had if the impairment not been recognised originally. This is because, for example, if the asset had not been impaired then depreciation based on the original asset value would have been charged to operating expenses in the intervening period, and therefore the impairment reversal needs to take this into account. Any remaining amount of the impairment reversal should be recognised in the revaluation reserve and reported as an item of other comprehensive income.

6.50. If, at the time of the original impairment, an amount was transferred from the revaluation reserve to the income and expenditure reserve, an amount must be transferred back to the revaluation reserve when the impairment is reversed to avoid overstating the income and expenditure reserve. The amount transferred back is that which will bring the respective reserves to the balances that they would have had if the impairment and impairment reversal had been treated as a revaluation loss and a revaluation gain in accordance with IAS 36.

Other impairments

6.51. Other impairment losses, in accordance with IAS 36, are treated as revaluation losses, as described in the PPE section above. Similarly reversals of such other impairments are treated as revaluation gains in accordance with IAS 36.

6.52. As land and buildings are reported separately in the notes to the SoFP, impairments and revaluations need to be analysed between land and buildings, based on the valuer's analysis of the overall valuation of the property, and upward revaluations or impairments need to be recognised separately on land and on buildings.

Borrowing costs (IAS 23)

6.53. IAS 23, *Borrowing Costs*, requires borrowing costs incurred in connection with the acquisition or construction of a qualifying asset (principally property, plant and equipment and intangible assets) to be capitalised and included within the cost of the asset. However, entities are not required to apply the standard where such assets are measured at fair value, and the FReM requires borrowing costs in these circumstances to be expensed.

6.54. For qualifying assets measured at current value in existing use, IAS 23 applies in full..

Other Finance and Borrowing Costs

6.55. Interest on loans includes interest payable on loans received under the capital loans and deposits scheme.

6.56. Guidance for “interest on obligations under PFI contracts” is available in the document *Accounting for PFI under IFRS*, which is available on the download/IFRS section of the Finman website.

Leased Assets

6.57. 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*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*.

6.58. Under IAS 17, leases of property, plant and equipment are classified as either finance leases or operating leases, according to their characteristics as set out in paragraphs 10 and 11 of the standard.

6.59. IFRIC 4 requires other contracts to be examined to determine whether or not they contain a lease. For example, does a contract for services require the use of a specific underlying asset to which the recipient has exclusive use? Where such a lease is identified, the payments for it should be separated from the rest of the contract (using estimation techniques if necessary) and then accounted for as a finance or operating lease in accordance with IAS 17.

6.60. The assessment under IFRIC 4 should be done when the arrangement is first entered into, and should be re-assessed where the contract terms change or where the nature of the underlying asset changes.

6.61. A contingent rent is the portion of a lease payment that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time, such as, percentage of future sales or future price indices.

Investment property (IAS 40)

6.62. The accounting requirements for investment property are set out in IAS 40. Practitioners should note the following *FReM* interpretation, which is also adopted by this manual, in respect of identifying investment property:

> *Only those assets which are held solely to generate a commercial return should be considered to be investment properties within the meaning of IAS 40. Where an asset is held, in part, to support service delivery objectives, then this should be considered to be an item of property, plant and equipment and should be accounted for in accordance with IAS 16, as described above.*

6.63. Indications that a property is not an investment property might include, for example, lessees being charged rentals at less than market value, or properties being under-used without any plan to alter their use, dispose of them or otherwise take steps to improve the return on the asset. IAS 40 states that properties occupied by employees, whether or not they pay rent at market rates, are not investment properties.

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

6.65. Investment properties should be measured at fair value in the financial statements. The cost option in the standard is withdrawn. Changes in the fair value of the property should be recognised as revenue gains or losses.

Non-current assets held for sale

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

Financial Instruments

6.67. The relevant standards are IAS 32, *Financial Instruments: Presentation*, IAS 39, *Financial Instruments: Recognition and Measurement*, IFRS 7, *Financial Instruments: Disclosures* and, IFRIC 9, *Reassessment of Embedded Derivatives*. These standards can be very complex in areas – in particular the very detailed definitions that can be found throughout the standards. Practitioners therefore should ensure they are thoroughly familiar with the standards and take care to ensure that their transactions are properly classified, measured and disclosed.

6.68. The disclosures in this note apply to all the entity’s financial instruments except:

- interests in subsidiaries, associates and joint ventures where they are consolidated, partially consolidated or equity-accounted, and

- employers' rights and obligations under employee benefit plans.

6.69. They therefore apply to financial instruments whose accounting is unchanged by the financial instrument standards, such as current payables and receivables, and financial instruments that are measured under other standards, such as provisions arising under contracts, finance leases and PFI liabilities. See *Chapter 6 Annex 1: Financial Instruments* paragraphs 6 to 11 for the full description of financial instruments.

6.70. Guidance on financial instruments is given in Chapter 6 Annex 1: *Financial Instruments*. The following should be noted:

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

Inventories

6.71. The relevant standard is IAS 2, *Inventories*. The example accounts provide the headings thought to be most relevant to NHS bodies. Where other material categories of inventory are held, the format should be expanded to include these.

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

Trade and other receivables

6.73. The relevant standards are IAS 1, *Presentation of Financial Statements*, paragraph 78(b) and IFRS 7, *Financial Instruments Disclosures*, paragraph 36. Receivables from Scottish, Welsh and Irish health bodies should be treated as non-NHS.

6.74. Prepayments and accrued income includes PFI lifecycle items received later than planned. Guidance is given in the document *Accounting for PFI under IFRS*, which is on the download/IFRS section of the Finman website.

Receivables past their due date but not impaired

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

Provision for impairment of receivables

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

Other current assets

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

Cash and cash equivalents

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

6.79. The definition of cash and cash equivalents may be different between the SoFP and the SSoCF 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 SoFP, bank overdrafts are included under "borrowings". This note reconciles the two.

6.80. Bank balances held with the Government Banking Service should not be treated as a bank balance with a commercial bank despite the contracts in place with commercial banks. Only balances held in accounts outside this contracted arrangement should be considered as being held in a commercial bank account.

6.81. Cash equivalents include liquid investments as defined under IAS 7. DH group bodies should review the nature of such deposits, including items held with the National Loan Fund at the year end, and the original term to maturity of the investments to ensure the deposits are correctly allocated between cash equivalents and other short term loans (current assets).

Provisions

6.82. The relevant standard is IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. IAS 19, *Employee benefits*, is also relevant. For presentation purposes in the SoFP, all provisions need to be separated into current and non-current amounts.

6.83. There is no need to provide a disclosure of the movements in provisions in the prior year because IAS 37 (paragraph 84) provides an exemption from the general IAS 1 requirement for comparative information.

6.84. The expected timing of cash flows for each provision must be analysed by the following periods:

- not later than one year
- later than one year and not later than five years
- later than five years.

6.85. Where the time value of money is material, future cash flows are discounted. Treasury issues guidance on appropriate discount rates, and this is summarised below at Chapter 6 Annex 2 - *Treasury Discount Rates*.

Clinical negligence claims

6.86. 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 provider bodies should however disclose, within the provisions note, the value of those liabilities recognised by the NHSLA on their behalf. The NHSLA will provide the figure for the disclosure each year.

Early retirement costs

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

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

6.89. For local government pension scheme early retirements, cash outflows will be discounted using the pension liability discount rate for that scheme.

Injury benefits

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

Carbon Reduction Commitment Energy Efficiency Scheme (CRC)

6.91. The CRC scheme is a mandatory cap and trade scheme for non-transport CO_2 emissions. Where NHS organisations are registered with the CRC scheme, they are required to surrender to the government an allowance for every tonne of CO_2 they emit during the financial year. In line with IAS 37, NHS organisations should recognise a liability (and related expense) in respect of this obligation as CO_2 emissions are made.

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

6.93. For recognition of the intangible assets associated with the CRC provisions, see paragraph 6.39.

6.94. The carrying amount of the liability at 31 March 2017 will, therefore, reflect the CO_2 emissions that have been made during 2016-17.

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

Trade and other payables

6.96. The relevant standard is IAS 1, *Presentation of Financial Statements*, paragraph 77. Payables to Scottish, Welsh and Irish health bodies should be treated as non-NHS.

Other liabilities

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

Defined Benefit Pension Schemes

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

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

Chapter 6 Annex 1: Financial Instruments

Introduction

1. The relevant standards are:
    - IAS 32, *Financial Instruments: Presentation*
    - IAS 39, *Financial Instruments: Recognition and Measurement*
    - IFRS 7, *Financial Instruments: Disclosures*
    - IFRIC 9, *Reassessment of Embedded Derivatives*.

2. The standards are complex and this guidance provides only a basic overview of the issues that may affect DH group bodies.

Financial instruments

3. 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”.

4. The definitions for financial assets and liabilities are complex. From DH group 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).

5. 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.

6. The following are not financial instruments because they arise under legislation rather than under contract:
    - Public Dividend Capital
    - European Union Emissions Trading Scheme allowances
    - early retirement liabilities (with the NHS Business Services Authority)
    - injury benefit liabilities (with the NHS Business Services Authority)
    - receivables under the injury cost recovery scheme

- HMRC creditors.

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 paragraph 4 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.

7. 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 (IFRS 10, 11 and 12).

8. 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.

9. Most instruments will be accounted for at amortised cost at their book value. The financial instrument standards mean that greater consideration may be required of:

   - long-term receivables and payables that are financial instruments (they are likely to require discounting to reflect fair value)
   - any loans that are not at a market rate of interest (their value may 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 may need to be adjusted to reflect fair value)
- derivatives and embedded derivatives
- any financial guarantees
- any hedge instruments.

10. Under IAS 39, loans payable should normally be measured at amortised cost, using the effective interest method. This approach to valuing financial instruments is intended to reflect the value at which such instruments could be traded. In the case of loans from DH to NHS bodies, neither party is involved in trading its interest in the loan. The overriding concern is that the loans are valued on a consistent basis across the group to enable the reported balances to be eliminated on consolidation.

11. Entities should therefore value their loan balances on the basis used by DH as the lender. This should equal the outstanding principle, valued at historic cost. Any unpaid interest at the reporting date should be shown as a separate accrual balance.

Derivatives

12. 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.

13. Embedded derivatives are derivatives that form part of another contract and cannot be transferred independently, as defined in IAS 39. A critical indicator of an embedded derivative is variation of cash flows over the life of a contract. Embedded derivatives can arise inadvertently through market practices or common contracting arrangements. An example is given at the end of this section.

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 is not separated and the contract (including the effect(s) of all closely related embedded derivatives) is accounted for in accordance with the relevant standard. If an embedded derivative is not closely related to the host contract and the fair 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 group bodies will need to review new contracts to identify any embedded derivatives that are not closely related to the host contracts, so that they can be accounted for separately from the host contracts, with changes in fair value taken

through the operating cost statement or income and expenditure account (unless the derivative is used for hedging).

Financial guarantees

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

22. 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.

23. 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.

24. Example: DH guarantees a private sector loan with a 5 year term 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

25. 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 group bodies use hedge instruments.

Recognition and de-recognition

26. 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.

27. 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.

28. 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 arm's 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 through profit and loss'	Derivatives (other than if a financial guarantee or a hedge instrument)	Fair value with movements through SoCI/SoCNE
Held to maturity investments	These are rare in practice. They are long term investments unlikely to be held by DH group bodies.	*Amortised cost
Loans and receivables		*Amortised cost
Available for sale	LIFT investments	Fair value fair value movements through reserves, except for foreign currency movements on foreign currency denominated monetary items, and impairment, which are recorded in SoCI/SoCNE. 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 IAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* 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 group 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 SoFP 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 of financial instruments are always charged to the SoCNE/SoCI, 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 for monetary assets (e.g. bonds) may be reversed through the SoCNE/SoCI if its reversal can be objectively linked to an event occurring after the impairment was recognised in the SoCNE/SoCI. However, for non-monetary assets (investments in equity instruments), any subsequent increase in fair value is not recognised in the SoCNE/SoCI and is instead credited directly to the related reserve.

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 6 Annex 2 - Treasury Discount Rates

1. Treasury's *FReM* describes the use of discount rates to value general provisions, post-employment benefit provisions and financial instruments. Treasury sets the standard discount rates each year by means of a Public Expenditure System (PES) paper. For the reporting period ending 31 March 2017, the PES paper was released in December 2016.

2. The rates applicable on 31 March 2017 are set out below.

General Provisions

3. The general provisions discount rates are used to discount future cash flows related to provisions recognised in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

4. Treasury gives rates for short, medium and long-term general provisions. These are defined as follows:

   - ***Short-term rate***: A real discount rate to be applied to the cash flows of general provisions in a time boundary of between 0 and up to and including 5 years from the SoFP date
   - ***Medium-term rate***: A real discount rate to be applied to the cash flows of general provisions in a time boundary of after 5 and up to and including 10 years from the SoFP date
   - ***Long-term rate***: A real discount rate to be applied to the cash flows of general provisions in a time boundary exceeding 10 years from the SoFP date.

5. The real discount rates to be applied on 31 March 2017 to determine the net present values of provisions are:

Rate	**Real Rate**
Short-term	**Minus** 2.70% (previous rate: -1.55%)
Medium-term	**Minus** 1.95% (previous rate: -1.00%)
Long-term	**Minus** 0.80% (previous rate: -0.80%)

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

Post-Employment Benefits Provisions

7. The real discount rate applicable on 31 March 2017 is 0.24% (the previous year's rate was 1.37%).

8. The rate is applicable for all provisions for continuing obligations arising from previous employment service.

Accounting – Both Categories of Discount Rate

9. The real discount rate is used where expected cash flows are expressed in current prices, i.e. those cash flows have not been uplifted for expected future inflation.

10. Accounting impacts: an increase in the discount rate for provisions results in a lower carrying value at the year end, with a consequent credit to the revenue account in-year, and vice versa.

Type of provision	Movement in discount rate compared to prior year	Impact on carrying amount and SoCNE/SoCI
Short-term (general)	Decrease (i.e. increase in negative rate)	Increase carrying amount of provision at 31 March 2017. Debit to revenue account.
Medium-term (general)	Decrease (i.e. increase in negative rate)	Increase carrying amount of provision at 31 March 2017. Debit to revenue account.
Long-term (general)	No change.	No impact.
Post-employment	Decrease (i.e. decrease in positive rate)	Increase carrying amount of provision at 31 March 2017. Debit to revenue account.

Financial instruments

11. The financial instrument discount rate is used for some financial instruments in accordance with the requirements of the *FReM*.

12. The *FReM* states (Table 6.2):

> *Where future cash flows are discounted to measure fair value, entities should use the higher of the rate intrinsic to the financial instrument and the real financial instrument discount rate set by HM Treasury (promulgated in PES papers) as applied to the flows expressed in current prices.*

The real financial instrument discount rate to be applied at 31 March 2017 is 0.7% (previously 0.7%). The rate as applied to flows expressed in current prices is RPI + 0.7%, where the financial instrument is index linked to RPI. Where the financial instrument is not linked to an inflationary index, and a nominal rate is required, 3.7% may be used.

Chapter 6 Annex 3 - Valuation Issues

1. In considering how best to apply the valuation requirements of IAS 16, *Property, Plant and Equipment*, to ensure that the SoFP gives a true and fair view of the value of the assets at the reporting period, DH group bodies should consider the following guidance (together with extant Treasury guidance).

2. Assets which are held for their service potential (i.e. operational assets used to deliver either front line services or back office functions) should be measured at their current value in existing use. For "in use" non-specialised property assets, current value in existing use should be interpreted as market value for existing use. In the Royal Institution of Chartered Surveyors; (RICS) "Red Book" (RICS Appraisal and Valuation Standards), this is defined as Existing Use Value (EUV).

Modern Equivalent Asset (MEA) valuations

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

Recognition and measurement

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

5. DH group bodies should value their property using the most appropriate valuation methodology. Such methods might include:

   - a quinquennial valuation supplemented by annual indexation and no interim professional valuation
   - annual valuations, or
   - a rolling programme of valuations of properties (whether specialised or non-specialised).

6. It is for valuers, using the RICS Red Book, and following discussions with the entity, to determine the most appropriate methodology for obtaining either a current value in existing use or a fair value. Where a valuer, following discussion with the entity, determined that depreciated replacement cost (DRC) is the most appropriate measure of current value in existing use, entities and their valuers should have regard to the RICS

Valuation Information Paper No. 10. VIP extracts. Other detailed valuation guidance is available on https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/191488/Green_book_supplementary_guidance_asset_valuation.pdf

7. Where DRC is used as the valuation methodology, entities should normally value a modern equivalent asset in line with the Red Book. Any plans to value a reproduction of the existing asset instead should be discussed with the relevant national body or DH sponsor to determine whether such an approach is appropriate to the entity's circumstances.

8. Where DRC is used as the valuation methodology, entities should use the "instant build" approach. Generally the valuation should be gross of VAT, however circumstances may arise where the asset would be more appropriately valued net of VAT. For instance, entities may recover VAT on payments for certain contracted-out services, including the provision of a fully managed and serviced building under a PFI. When revaluing assets arising from a PFI project, entities may take the view that this should be based on a value excluding recoverable VAT, reflecting the cost at which the service potential would be replaced by the PFI operator. Valuation is ultimately a matter for local valuation experts. However, PFI assets should only be revalued exclusive of recoverable VAT where there is clear evidence that this is appropriate, which should be to the satisfaction of local auditors. Where an asset was not previously acquired through a route that permits VAT to be recoverable, and there is no clear indication that VAT would be recoverable on any replacement, the asset should be valued inclusive of VAT.

9. Where DRC is used as the valuation methodology, the choice of an alternative site will normally hinge on the policy in respect of the locational requirements of the service that is being provided. Where the practical requirements of healthcare delivery, for example, require that a hospital is located on the same geographical site it now occupies, the valuation should be based on that site and not an alternative. A valuation on an alternative site basis may however be appropriate where it is clear that the alternative would offer advantages in serving the target population.

10. The cost of enhancements to existing assets (such as building of a new wing within an existing hospital) should be capitalised during the construction phase as an asset under construction. At the first valuation after the asset is brought into use, any write down of cost should be treated as an impairment and charged to the revenue account.

11. For "in use" non-specialised property assets current value in existing use should be interpreted as market value for existing use. In the RICS Red Book, this is defined as "Existing Use Value" (EUV) (*FReM* table 6.2).

Disclosure

12. Paragraph 7.1.12 of the *FReM* requires entities to:

- disclose in the accounting policies note the fact that in use assets are carried at current value in existing use. Entities should also provide information about the approach to valuing their estates, including a statement (where applicable) that alternative sites have been used in DRC valuations
- disclose in the notes on property, plant and equipment the date of the last valuations of those property assets that are subject to revaluation, and the names and qualifications of the valuer, and
- discuss in the performance report, where they hold extensive estates: their estate management strategy, the indicative alternative use values provided by the valuer as part of the routine valuation work, and what those alternative use values mean in terms of their estate management policy.

Equipment

13. The accounting policy remains that equipment is carried at current value in existing use. The main consideration is that no material difference should arise in the financial statements as a consequence of the use of depreciated historic cost in preference to other possible measures of current cost, including indexation.

14. The following disclosures must be given: in the accounting policies note, that assets which are held for their service potential (i.e. operational assets) and are in use are measured at current value in existing use. For non-specialised assets current value in existing use is interpreted as market value for existing use. Information must also be given about any significant estimation techniques, if applicable.

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

NHS LIFT investments

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

PFI and LIFT - additional information

2. The relevant standards are IFRIC 12*, Service Concession Arrangements*, SIC 29, *Service Concession Arrangements: Disclo*sures, and IPSAS 32, *Service Concession Arrangements: Grantor*.

3. To determine the appropriate accounting treatment of a PFI scheme, the DH group bodies should, in the first instance, determine whether the scheme falls within the scope of IFRIC 12. A scheme will be within the IFRIC's scope where an infrastructure asset is constructed or acquired for the scheme, or is a pre-existing asset of the entity or of the operator and:

    - the entity controls or regulates what services the operator must provide with the property, to whom it must provide them and at what price, and
    - the entity controls – through beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement (in accordance with paragraph 6 of the IFRIC, where the residual interest is not significant because the property has been used for its entire useful life during the scheme, this second criteria should be ignored).

4. Practitioners should note that although IFRIC 12 only applies to service concession arrangements which involve a public service obligation, the *FReM* includes an interpretation which extends the scope of infrastructure assets to also include 'permanent installations for military etc. operations and non-current assets used for administrative purposes in delivering services to the public'. The *FReM* also extends the scope of the IFRIC to include assets that were previously owned by the operator. This manual follows the *FReM* and also adopts these interpretations.

5. Where a scheme falls within the scope of IFRIC 12, the trust should recognise an asset of the infrastructure and a corresponding finance lease liability in accordance with IAS 17. Paragraph 7.1.49 of the *FReM* includes an adaptation of IAS 17 by requiring the asset and liability to be recognised when (a) it is probable that future economic benefits associated with the infrastructure asset will flow to the trust and (b) the cost of the asset can be measured reliably.

6. Subsequently the infrastructure asset is accounted for as property, plant and equipment and/or an intangible asset. The annual Unitary Payment should be separated between an amount for services and an amount for the property. The services element should be

recognised in operating expenses to reflect the services received. The property element should be split between repayment of the financial liability and an annual finance charge calculated using the implicit interest rate in the scheme in accordance with the principles of IAS 17.

7. If the scheme does not fall within the scope of IFRIC 12, then the trust should consider whether the scheme is a lease in accordance with IAS 17 or is an arrangement which contains a lease as defined in IFRIC 4.

8. Discounting: where a discount rate implicit in the transaction cannot be established, the Treasury discount rate used for investment appraisal and arriving at current asset/liability values is used. HM Treasury's *The Green Book: appraisal and evaluation in central government*[44] refers.

9. DH group bodies should apply both Treasury's guidance Accounting for PPP arrangements, including PFI contracts, under IFRS, in chapter 7 (7.1.48 et seq.) of the *FReM* and DH guidance Accounting for PFI/LIFT under IFRS on the Finman website.

Recognition of assets under PPP or PFI arrangements

10. The *FReM* notes that the grantor (under a service concession arrangement) should recognise the infrastructure as a non-current asset and value it in the same way as other non-current assets of that generic type. The asset will be recognised when:

- it is probable that future economic benefits associated with the asset will flow to the organisation, and
- the cost of the asset can be measured reliably.

11. The grantor should consider the asset recognition criteria, together with the specific terms and conditions of the binding arrangement, when determining whether to recognise the service concession asset during the period in which the asset is constructed or developed. If the asset recognition criteria have been met, a work-in-progress service concession asset and associated liability should be recognised. If not and the grantor makes contributions to the operator in advance of the asset coming into use, the grantor should account for those payments as prepayments and then set against the finance lease liability established when the asset is recognised.

12. Any embedded derivatives in the arrangement and any guarantees to the operator must be accounted for under financial instrument standards (IAS 32 and IAS 39). Guidance on financial instruments is provided in Chapter 6 Annex 1: *Financial Instruments*.

[44] https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent

13. Enhancements/additions to on-SoFP PFI assets that are financed through the unitary charge should be recognised when they are provided. Those financed by the DH group body should be recognised as its own asset.

Disclosures

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

15. The following disclosures should also be made:

a) The *FReM* requires, for *'off-balance sheet' service concessions*, disclosure of the total payments to which the trust is committed for each of the following periods:

- not later than one year
- later than one year and not later than five years, and
- later than five years.

b) The *FReM* requires, for *'on-balance sheet' service concessions*, disclosure of the trust's total commitments due:

- not later than one year
- later than one year and not later than five years, and
- later than five years.

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

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

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

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

- interest charge

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

16. Under section 410A of the *Companies Act 2006*, where an entity is a party to an arrangement (including PFI) which is not reflected in its SoFP and where, at the SoFP date, the risks or benefits in relation to them are material, it must disclose in a note to the accounts:
    - the nature and business purpose of the arrangements, and
    - the financial impact of the arrangements on the entity.

17. The information need only be given to the extent necessary for enabling the financial position of the entity to be assessed.

Service concession arrangements in budgets

18. HM Treasury's budget regime reflects the treatment of economic activity in National Accounts. This is based on European System of Accounts 2010 (ESA 10).

19. In many cases, the treatment of PFI, LIFT and other service concessions will differ from IFRS treatment under ESA 10, with the contracts being treated as 'off-balance sheet'. Assets are recorded 'off-balance sheet' if both of the following conditions are met:
    a) the private partner bears the construction risk, and
    b) the private partner bears at least one of either availability or demand risk, as designed in the contract.

20. The risks are defined as follows:
    a) *Construction risk* covers events related to difficulties faced during construction and to the state of the involved asset(s) at the commencement of services. In practice it is related to events such as late delivery, non-respect of specified standards, significant additional costs, legal and environmental issues, technical deficiency and external negative events (including environmental risk) triggering compensation payments to third parties.
    b) *Availability risk* covers cases where, during the operation of the asset, the responsibility of the partner is called upon because of insufficient management ("bad performance"), resulting in a volume of services lower than what was

contractually agreed, or in services not meeting the quality standard specified in the contract.

c) *Demand risk* covers the variability of demand (higher or lower than expected when the contract was signed) irrespective of the performance of the private partner. In other words, a shift of demand cannot be directly linked to an inadequate quality of services provided by the partner. However, the quantitative and qualitative shortfalls have an impact on the effective use of the service and in some cases exert an eviction effect, but this primarily results from a bad management of the availability risk. Instead, it should result from other factors such as the business cycle, new market trends, a change in final users' preferences or technological obsolescence. This is part of a usual "economic risk" borne by private entities in a market economy. Normally the demand risk is not applicable for contracts where the final user has no free choice as regards the asset-dependent service provided to them by the partner.

21. There are also other mechanisms, where government re-assumes the majority of risks of the project, which determine that the asset is recorded on the government's balance sheet, independent of the risks above and these should be considered. These are:

a) termination

b) majority financing, where the government body finances the majority of the capital cost, and

c) government guarantees.

22. For contracts that predate the adoption of IFRS, treatment under ESA 10 may coincide with that that previously applied under UK GAAP. However, for the purpose of assessing the budget treatment of ongoing contracts, entities should always refer to ESA 10.

Budget adjustment in summarisation schedules

23. Entities are required to complete a note in summarisation schedules quantifying the differences between IFRIC 12 and ESA 10 treatments.

24. The effect of this note is to calculate an adjustment to budget outturn to reflect the different treatment of service concession arrangements under ESA 10. This comprises the following elements:

a) additions and disposals of service concession arrangement assets excluded from capital outturn

b) depreciation/impairment and other revenue charges arising from service concession arrangement assets excluded from resource outturn

c) revenue charges arising from payments in respect of 'off-balance sheet' assets (per ESA 10) included in resource outturn, and

d) increases in reversionary interest (also known as residual interest) relating to 'off-balance sheet' assets (per ESA 10) included in capital outturn.

25. The tables in summarisation schedules have been designed to make the distinction between the two reporting regimes clear. This is described in more detail in forms completion guidance.

7. Other Statements and disclosure requirements

Statement of Changes in Taxpayers Equity (SoCTE)

7.1. The relevant standards are IAS 1, *Presentation of Financial Statements,* and IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance.* DH group bodies should refer to the example accounts format (as applicable) to ensure the correct presentation of the SoCTE, and the completion guidance for the summarisation schedules for collection requirements.

Statement of Cash Flows (SoCF)

7.2. The relevant standard is IAS 7, *Statement of Cash Flows*. For foreign exchange entries, the relevant standard is IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

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

7.4. Cash and cash equivalents in the SoCF 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 SoFP, where IAS 39, *Financial Instruments: Recognition and Measurement,* prohibits overdrafts from being set-off in this way.

7.5. The standard permits discretion as to where certain cash flows may be disclosed, depending on how an entity views them in relation to its activities. In order to ensure consistency of treatment across the accounts group, the following cash flows should be disclosed within the Statements of Cash Flows:

- interest received on investments represents cash flows associated with investing activities and should be disclosed under that heading
- cash flows in relation to the payment of interest, including the interest element of finance lease rentals, are associated with financing activities and should therefore be disclosed under that heading
- for NHS providers, the payment of PDC dividend also represents a cash flow associated with financing activities and therefore should be disclosed under that heading. Other group bodies will not have PDC transactions.

7.6. DH group bodies are expected to use the indirect method in their financial statements as guided by the example accounts for each sector. The summarisation schedule should be consistent with the financial statements. The financing section must follow the summarisation schedule and the example accounts formats.

Other Notes to the Accounts

Pooled budgets

7.7. A "pooled budget" in the NHS context is likely to be a "joint operation" as defined by the relevant standard IFRS 11, *Joint Arrangements*. Where the arrangement constitutes a "joint venture", IAS 28 (as adapted) is applicable. ***Error! Reference source not found.*** and **Error! Reference source not found.** refer. Points to note:

- Unless pooled budget transactions are immaterial, disclosure of the arrangement is required under IFRS 12
- When involved in a joint operation, a DH group body must bring its share of the transactions and balances of the arrangement to account. Where cash is held in a "pooled budget" (i.e. one partner holds cash on behalf of others), the contributor's rights to that cash are reflected by its raising a receivable balance with the body that holds the cash.

Better Payment Practice code – measure of compliance

7.8. The note reports compliance with the better payment practice code in respect of invoices received from both NHS and non-NHS trade creditors. The code is summarised as:

- Target: pay all NHS and non-NHS trade payables within 30 calendar days of receipt of goods or a valid invoice (whichever is later) unless other payment terms have been agreed
- Compliance: at least 95% of invoices paid (by the bank automated credit system or date and issue of a cheque) within thirty days or within agreed contract terms.

7.9. DH group bodies should be aware when completing the disclosure that:

- the note must relate to all invoices paid during the year, excluding those issued up to 31 March that are in dispute at the year-end, and
- the format of the disclosure can be found in the example accounts format as described in paragraph 4.6. NHS foundation trusts have discretion over whether to include this disclosure.

The Late Payment of Commercial Debts (Interest) Act 1998

7.10. The *Late Payment of Commercial Debts (Interest) Act 1998*[45] allows entities to claim interest on the late payment of debts by contracting partners. Creditors can also claim a

[45] http://www.legislation.gov.uk/ukpga/1998/20/contents

fixed sum of compensation should late payment occur. This is to cover debt recovery costs. This was updated under SI 2013 No.395, *The Late Payment of Commercial Debts Regulations 2013*[46].

7.11. Details of the disclosure requirements incurred can be found in the example accounts format, as described in paragraph 4.6. NHS foundation trusts have discretion over whether to include this disclosure in their accounts, but otherwise must include it in their annual report.

Capital and Other Commitments

7.12. For capital commitments, the relevant standards are IAS 16, *Property, Plant and Equipment*, paragraph 74(c) and IAS 38, *Intangible Assets*, paragraph 122(e).

7.13. Other commitments (excluding leases, PFI and LIFT) under non-cancellable contracts are also shown.

7.14. IAS 16 (paragraph 74c) and IAS 38 (paragraph 122e) require that the contractual commitments at the year end to purchase property, plant and equipment and intangible assets are disclosed. An asset provided under a finance lease does not give rise to SoFP entries in respect of the creation of the non-current asset and its related capital creditor until the asset is delivered and is operational in the entity's hands. When a NHS body has signed an "on-balance sheet" finance lease contract in the accounting period (whether PFI or other), but the asset does not become operational until a future period, a disclosure in the format provided in the example accounts format should be included as a note to the Accounts.

Intra Government and other balances

7.15. The requirement to disclose a breakdown of payables and receivables due from/to entities within the Whole of Government Account (WGA) boundary has been removed from the *FReM* and is no longer required in published accounts. However, the summarisation schedules will still request balances to be broken down by inter-government sector. The breakdown of balances will assist in the:

- validation of balances recorded with other group bodies as part of the agreement of balances exercise
- elimination of group trading balances from the consolidated accounts, and
- validation of the data collected for the departmental group's WGA submission.

[46] http://www.legislation.gov.uk/uksi/2013/395/introduction/made

Finance lease obligations (as lessee)

7.16. The relevant standards for this note are IAS 17, *Leases*, SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* and IFRIC 4, *Determining whether an Arrangement contains a Lease*.

7.17. The minimum lease payments are:

- the payments over the term of the lease,
- less the following:
  - contingent rent
  - costs for services
  - costs that will be reimbursed
  - any amounts guaranteed by the other party or a related party to them, and
  - where the lessee has the option to purchase the asset at a price that makes it reasonably certain at the inception of the lease that the option will be exercised, the payment to exercise the option.

7.18. Minimum lease payments are shown in those columns undiscounted: discounting is applied under “less future finance charges” to bring the total to a discounted (present value) figure.

7.19. The present values of minimum lease payments are the “minimum lease payments” discounted to present value. As the discounting has been applied in these three rows, no entry is required against “less future finance charges”.

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

Finance lease receivables (as lessor)

7.21. The relevant standards are IAS 17, *Leases*, SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*.

7.22. The note should include a reconciliation between the gross investment in finance leases at the SoFP date and the present value of the minimum lease payments receivable at the SoFP date.

Contingencies

7.23. The relevant standard is IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

7.24. Where disclosure of a contingent asset or liability may prejudice legal proceedings the situation should be discussed with the external auditor of the DH group body, and agreement reached on what disclosure is possible/appropriate.

Events after the reporting period

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

7.26. Where non-adjusting events after the reporting period are so material that non-disclosure could influence the economic decisions of users taken on the basis of the financial statements, the following information is required:

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

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

Related party transactions

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

7.29. HM Treasury considers government departments and their agencies, and Department of Health Ministers, their close families and entities controlled or influenced by them, as being parties related to DH group bodies.

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

7.31. Paragraph 25 of IAS 24 allows entities which are related parties because they are under the same government control to reduce the volume of the detailed disclosures. Note also that IAS 24 is interpreted such that DH group bodies must disclose the Department of Health as the parent department and provide a note of the main entities within the public sector with which the body has had dealings, but that no information needs to be given about these transactions.

7.32. NHS bodies must disclose as a related party all linked NHS charities (where these are not consolidated) including the nature of the relationship, and details of material transactions between the body and the linked charity. Linked NHS charities are those where the charity has corporate trustees (i.e. the board of the NHS trust or foundation trust act as the trustees of the charity) or where there are trustees appointed by the Secretary of State or NHS Improvement acting for the Secretary of State.

Losses and special payments

7.33. HM Treasury's *Managing Public Money* and detailed summarisation schedule completion guidance on the subject should be followed: the threshold for additional disclosures of losses is £300,000. However, all losses below this amount should be disclosed in aggregate. The example accounts format illustrates the contents of this disclosure. Figures recorded here are recorded on an accruals basis.

7.34. Where an entity has included this as part of the Parliamentary accountability and audit report (Chapter 2 paragraph 2.56), there is no requirement to duplicate the losses and special payments note as an accounts disclosure. NHS foundation trusts should refer to the *ARM 2016-17* for their annual reporting requirements. Annexes 4.10 and 4.13 of *Managing Public Money* contain guidance on the definitions of losses and special payments. NHS trusts and foundation trusts must follow the requirements of these annexes in full, including contacting NHS Improvement to seek approval from HM Treasury for any proposed special severance payments.

7.35. NHS foundation trusts should include a note disclosing information on losses and special payments in the accounts. This note should disclose:

- the total number and value of losses categorised between:
    - cash losses (including overpayments, physical losses, unvouched payments and theft)
    - fruitless payments and constructive losses
    - bad debts and claims abandoned (excluding cases between the FT and other NHS bodies), and
    - stores losses (including damage to buildings and other properties as a result of theft, criminal damage and neglect)
- the total number and value of special payments categorised between:
    - extra-contractual payments
    - extra-statutory and extra-regulatory payments
    - compensation payments
    - special severance payments, and
    - ex gratia payments
- the number, value and a brief description of individual losses and special payment cases which exceed £300,000 should be disclosed, including those relating to clinical negligence, fraud, personal injury, compensation under legal obligation and fruitless payments

- a statement that these amounts are reported on an accruals basis but excluding provisions for future losses, and
- any other explanation considered necessary.

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

Gifts

7.37. In line with the guidance in *Managing Public Money* Annex 4.12, DH group bodies should report on the total value of gifts made, if this exceeds £300,000 and provide details of any individual gifts over £300,000. DH group bodies are not expected to make gifts in the normal course of business, and should contact their national body or DH sponsor division in the first instance.

Third party assets

7.38. This note is an HMT requirement. Third party assets are assets for which an entity acts as custodian or trustee but in which neither the entity nor government more generally has a direct beneficial interest. An example is money held on behalf of patients. Third party assets are not recognised in the entity's SoFP.

Chapter 7: CCG Appendix

The following additional disclosures are applicable to CCGs:

Performance measures

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

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

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

NHS Act Section	***Duty***	***Maximum performance*** ***£000s (2015-16 £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 receivable in the financial year (whether under provisions of the Act or from other sources, and included here on a gross basis).

[For items under 223J(1) and 223J(2) provide information on the specified matter(s) and their individual performance against target, splitting the table disclosure if need be to highlight items that have breached target separate from items within target (i.e. disclosing aggregated achievement within target should not be used to 'hide' a breach of target against one or more Direction)]

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

Points to Note

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

3. The wording of Section 223H(1) is as follows:

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

(a) the amount allotted to it for that year under section 223G

(b) any sums received by it in that year under any provision of this Act (other than sums received by it under section 223G), and

(c) any sums received by it in that year otherwise than under this Act for the purpose of enabling it to defray such expenditure.

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

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

(a) the clinical commissioning group's notified maximum revenue resource use plus maximum capital resource use

PLUS

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

PLUS

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

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

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

PLUS

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

Chapter 7: NHS Trusts Appendix

Impact of IFRS treatment

1. This note reflects budgetary information that was collected as management information in previous years. It identifies impacts to revenue expenditure flowing from the implementation of IFRS and where DH budgetary treatments may differ from the IFRS treatment. This data forms part of the DH ARA and so is now included as an auditable part of the accounts format.

2. Detailed guidance on the completion of this note is included separately in the NHS trust summarisation schedule guidance. Comparator figures are not required for the prior year as the disclosure is not required by IFRS and only current year information is of relevance to DH.

Performance information

3. The performance 'outturn against targets' listed below are reported in this note by NHS trusts. These results form part of the NHS trust's ARA. 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