



Department
of Health &
Social Care

Department of Health and Social Care

Group Accounting Manual 2018-19: Consultation Exercise

January 2018

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Department of Health and Social Care Group Accounting Manual 2018-19

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1. Overview

All bodies within the Department of Health and Social Care accounting boundary (DHSC group bodies) must publish annual reports and accounts. Clear and transparent reporting helps the entity – as well as the users of the entity’s annual report and accounts – understand and scrutinise the year’s operations and outcomes.

The Department of Health and Social Care (and Monitor as the regulator for NHS foundation trusts, operating as NHS Improvement) has powers to direct the form in which the annual report and accounts should be prepared, the information that should be included, and the methods and principles that should be followed in their preparation. In determining the form and content of the accounts we must, by statute, aim to ensure the accounts present a true and fair view.

In order to achieve this, the department issues a group wide annual report and accounting manual every year, the *‘Department of Health and Social Care Group Accounting Manual’* (GAM), containing the requirements DHSC group bodies need to follow when preparing their annual reports and accounts. Additionally, NHS Improvement separately publishes the annual reporting requirements for NHS foundation trusts via the *‘NHS foundation trust annual reporting manual’* (FT ARM). The FT ARM contains the formal accounts direction but foundation trusts will follow the GAM for accounts requirements.

The GAM requires DHSC group bodies to follow the requirements of International Financial Reporting Standards (IFRS), as adopted by the European Union, and the HM Treasury Financial Reporting Manual (FReM). Therefore, the GAM only includes detailed accounting guidance where DHSC group bodies are:

- required to depart from IFRS or the FReM
- required to make specific disclosures in addition to IFRS and the FReM, or
- faced with particular circumstances that IFRS or the FReM do not address.

Updates to the GAM follow the same principle and, on that basis, are required where IFRS or the FReM have changed, or when DHSC group bodies are required to make specific extra disclosures.

Some content for 2018-19 is not yet available, such as Treasury Discount Rates. The draft GAM indicates where this is the case, and the manual will be revised later in the year once this content is known. The additional guidance document published alongside the December 2018 revision of the 2018-19 GAM will signpost the changes made within the manual.

2. This consultation

This consultation relates to the draft GAM for 2018-19. The consultation period will run from 22 January 2018 until 23 February 2018. The 2018-19 GAM will be published in April 2018, once we have received and reviewed consultation responses. It is subject to approval by the

Financial Reporting Advisory Board (FRAB), and any changes will be made in collaboration with the relevant sector finance leads.

This document summarises the principal changes introduced in the draft GAM 2018-19. A table of requirement and format changes is also included within the draft GAM.

Please submit your responses by **Friday 23 February 2017** at the link to the online portal, citizen space, provided in section 5.

3. Principal changes proposed in 2018-19

There are significant changes to accounting requirements in 2018-19, as well as a significant change in approach regarding the measurement of discount rates for general provisions being introduced by HM Treasury. Changes to the GAM are therefore focussed on providing clarity regarding the implications of these changes.

A. Adoption of IFRS 9 Financial Instruments

This section deals with the adoption, interpretation and adaptation of IFRS 9 Financial Instruments, superseding IAS 39 from 1 April 2018.

The objective of IFRS 9 is to establish principles for the reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

Specific consultation regarding the adoption of the standard by HM Treasury took place in previous financial years.

The material changes this makes to the 2018-19 GAM are signposted in the summary of changes section, predominantly within chapters 4 and 5. It should be noted from the outset that this standard is complex. Practitioners should ensure they are familiar with the standard as well as the numerous interpretations and adaptations provided by HM Treasury for application to government bodies, which are detailed in 4.157 and 4.158 of the GAM. Beyond these exceptions, the standard is to be adopted in full.

Consultation question 1:

Do you have any comments on the guidance provided in the GAM for the adoption of IFRS 9 Financial Instruments?

A notable change of approach will occur regarding the accounting treatment of DHSC loans to NHS bodies, as a result of IFRS 9 adoption. Treatment will change from recognition at historical cost to measurement at amortised cost, using the effective interest rate method.

There are two key issues that underlie the need to adjust the accounting policy in this area. Firstly, under IFRS 9 these loans should be measured at amortised cost using the effective interest method, rather than at the current measurement of historic cost. Secondly, IFRS 9

requires classification of instruments by the basis of measurement (see 2018-19 GAM Chapter 5 Annex 1 notes 1.28 and 1.29), thus removing the loans and receivables classification under which the DHSC loans previously sat, which would now be subsumed under the amortised cost classification.

In terms of the mechanics of accounting for DHSC loans at amortised cost under IFRS 9, the nominal rate DHSC charges would serve as the effective interest rate, which would then be applied to the loan balance. Such an approach provides simplification compared to the historical cost approach that required entities to account for the principal and interest separately.

To ensure that the eliminations are completed appropriately, it is critical that NHS bodies and DHSC maintain agreement over the loan balances and nominal interest rates being charged.

Consultation question 2:

Do you have any concerns regarding the feasibility of adopting the revised treatment of DHSC loans under IFRS 9?

B. Adoption of IFRS 15 Revenue from Contracts with Customers

This section deals with the adoption, interpretation and adaptation of IFRS 15 Revenue from Contracts with Customers, superseding IAS 11 and IAS 18 from 1 April 2018.

The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

Specific consultation regarding the adoption of the standard by HM Treasury took place in previous financial years.

Whilst this standard may present as less technical than IFRS 9, IFRS 15 asks entities to make various considerations as to the nature of the contracts entered in to, as well as the goods and services and obligations established with customers.

Taking considerations around performance obligations as an example, under IFRS 15 if an obligation is assessed as being satisfied at a point in time, then revenue can only be recognised when the performance obligation has been satisfied in full. Revenue can only be recognised over time, if the performance obligation is also judged to be satisfied over time.

Determinations regarding such factors dictate the appropriate accounting treatment and disclosure requirements for revenue under IFRS15. Thus it is important that all aspects of the standard are digested. Please note also that a key emphasis running through the standard surrounds the consistency of judgements made.

The material changes this makes to the 2018-19 GAM are signposted in the summary of changes section, predominantly within chapters 4 and 5. The standard is to be adopted in full with the interpretations and adaptations that are identified in 4.47 to 4.48 of the GAM.

Consultation question 3:

Do you have any comments on the guidance provided in the GAM for the adoption of IFRS 15 Revenue from Contracts with Customers?

It should also be noted that IFRS 15 requests disclosures to assist users in understanding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Under the new standard, entities disclose more information about their contracts with customers than currently required under IAS 18 and IAS 11. As per the standard it is expected that this information is both **qualitative and quantitative**. Discussions in both public and private sectors have raised concern regarding the increased burdens such requirements may place upon accounts compilation teams.

Whilst HM Treasury considers it appropriate to apply the disclosure requirements in full, they are keen to emphasise that the standard requests entities to make appropriate materiality considerations when determining the level of information to disclose, to ensure the detail provided does not undermine the understandability of the financial statements. It should also be noted that IFRS 15 is explicit regarding the point that an entity need not disclose information in accordance with IFRS 15, if the information is provided in accordance with another Standard. Table 1 below provides a summarised view of the disclosure requirements as per IFRS 15.

Table 1: Summary of IFRS 15 Disclosure Requirements

Name	Details of Requirement
Disaggregation of Revenue	Entities must disaggregate revenue into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. If matching materiality considerations, this may be exercised through segmental reporting, reducing the requirement for this aspect of IFRS 15
Contract Balances	The Standard requires entities to disclose; the opening and closing balances of receivables, contract assets and contract liabilities, revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period and from obligations satisfied in previous periods; and an explanation of significant changes. This requirement offers similarities to IAS 11 disclosures and the duration of the contracts should have an impact regarding considerations made on materiality.
Performance obligations	Entities shall disclose information about its performance obligations in contracts with customers, including a description of: when performance obligations are typically satisfied, for example, upon delivery or as services are rendered and the significant payment terms, for example, when payment is typically due and whether the contract

	<p>has a significant financing component.</p> <p>Under IFRS 15 it is considered acceptable (both in the view of HM Treasury and the International Accounting Standards Board) to expand the detail provided regarding the accounting policy adopted, rather than provide the above detail for every contract. This leaves the disclosure note as an opportunity to discuss particularly material contract details if necessary.</p>
Transaction price for remaining performance obligations	<p>Entities shall disclose the aggregate amount of the transaction price allocated to performance obligations that are (partially) unsatisfied and an explanation of when an entity expects to recognise these amounts as revenue.</p> <p>It is noted that collation of information external to accounting systems may be required to fulfil this requirement such as through obtaining information from commercial systems.</p>
Assets	<p>Entities are required to disclose judgements made in determining the amount of the costs incurred to obtain or fulfil a contract and the method it uses to determine the amortisation, if assets arise not already in the scope of IAS 2, 16 or 38 (viewed as unlikely).</p>
Significant Judgements	<p>IFRS 15 requests disclosure of judgements and changes in these judgements made in applying the Standard, akin to existing requirements under IAS 1.</p>
Practical Expedients	<p>Where an entity elects to utilise a practical expedient offered under IFRS 15, this must be disclosed here.</p>

Consultation question 4:

Do you have any comments on the guidance provided regarding the adoption of IFRS 15 Revenue from Contracts with Customers disclosure requirements currently?

C. Change in Discount Rate Methodology

This section deals with the adoption of a new methodology by HMT, further guidance around which will be provided by HM Treasury during 2018-19

The PES (2017) 10 *Discount Rates for Post-Employment Benefits and General Provisions: Announcement of Rates* was issued on 11 December 2017 and signposted a change in methodology that will take effect for 2018-19.

HM Treasury has undertaken a review of the discount rate methodology applied to general provisions and has consulted with departments in this regard. This review culminated in several options being outlined to the Financial Reporting Advisory Board (FRAB) on the methodology to apply.

The FRAB considered the assessment of the options and in November 2017 approved a change in methodology determining that HM Treasury should provide departments with

nominal rates for general provisions and long-term liabilities other than pensions and termination benefits.

This change has been viewed as necessary in order to ensure that the discount rate methodology continues to meet the accounting standard's requirement to provide entities with rates that reflect current market assessments of the risk-free time value of money.

A key impact of this change is that use of nominal rates to discount general provisions, will require entities to forecast and apply inflation assumptions, to calculate inflationary adjusted cash flows in respect of general provisions. The inflation assumptions used will be dependent on the circumstances pertaining to the provision and individual departments.

HM Treasury will issue guidance in 2018-19 to assist departments with the practical implications of assessing inflationary effects on cash flows, as well as providing guidance in the FReM and will confirm the nominal rates to use for 2018-19, in a December 2018 PES paper.

To enable entities to model the likely financial impact of the change in rates to provisions, HMT provided the following recommended discount rates to use as indicative 2018-19 rates, which will be updated in the December 2018 PES paper.

Table 2: 2018-19 Indicative nominal discount rates

Term	Nominal rate
Short-term	0.54%
Medium-term	1.13%
Long-term	1.99%

As such the 2018-19 GAM will reflect this information and a holding response signposting that further guidance is awaiting from HM Treasury.

Consultation question 5:

Do you have any comments regarding the revised HM Treasury approach to discounting general provisions?

D. Amendments to IAS 7 Statement of Cash Flows Disclosure Requirements

This section deals with the adoption of additional disclosure requirements under IAS 7 Statement of Cash Flows

As part of IASB's disclosure initiative which has sought to improve the presentation and disclosure of financial reporting, enhancements of the disclosure requirements relating to IAS 7 have been developed which revolve around enabling users to evaluate both the cash and non-cash changes in liabilities arising from financing activities. This relates to paragraphs 44A to 44E in the Standard.

The 2018-19 FReM illustrative statements published 20 December provide detail regarding the requirements as well as a suggested template for the disclosure in the note entitled, *"Reconciliation of liabilities arising from financing activities"*.

This amendment of IAS 7 is referenced in paragraph 5.109 of the GAM. NHS bodies should follow the illustrative accounts formats provided by their national bodies.

Consultation question 6:

Do you have any comments regarding detail provided for the additional disclosure requirements under IAS 7 Statement of Cash Flows?

E. Disclosure of Medical Locum Staff Costing over £142,500 per annum

This section deals with the inclusion of an additional reporting requirement to be situated in the remuneration report.

NHS providers must include details of agency medical staff (also known as 'locums') whose total cost to the organisation in the financial year 2018-19 has been over £142,500 on an accruals basis.

Total cost to the organisation must include all elements of charge relating to that individual as billed by the relevant agencies, covering salary to the individual, including holiday pay, employers' NI contributions, employers' pension contributions, agency commission, expenses and other charges relevant to the engagement.

This information must be presented in the following table adjacent to the organisation's remuneration report for senior staff:

Table 3:

Name	Role	Total cost to the organisation in 2018-19 (£)
<i>e.g. Dr S Smith</i>	<i>Consultant Orthopaedic Surgeon</i>	<i>167,258</i>

Where there is more than one entry in the table, it must be sorted alphabetically by surname, and footnotes must be used where any further explanations are necessary. If an organisation does not have any agency medical staff that meet this criteria the table must be replaced with the following statement:

The trust did not engage any medical agency staff in 2018/19 that individually cost over £142,500.

Consultation question 7:

Do you have any comments regarding the highly paid locum disclosure?

F. How the External Finance Limit is employed

This section invites comments regarding the how the External Financial Limit is used by entities to inform their financial control and reporting routines

As part of the 2017-18 GAM, further detail was provided regarding the necessary performance disclosures for NHS Trusts. Within this, additional detail was provided regarding the external finance limit that is set for each NHS Trust.

On the basis of the additional detail provided, further conversations have begun across the DHSC Group as to the value derived by entities in monitoring and managing performance against this measure and as to whether the limit performs as an appropriate control.

As such we are keen to understand how or if this limit is used within NHS Trusts. The appropriate guidance for reporting against the EFL can be found in paragraph 5.197 and 5.198 of the 2018-19 GAM.

Consultation Question 8

Do you have any comments regarding the use or application of, the External Finance Limit for your organisation?

G. General Questions Regarding the Group Accounting Manual

This section invites comments regarding any further areas of the 2018-19 that the consultee wishes to make.

The following minor changes should be noted:

- The NHS Trusts accounts direction has been included as an annex (Chapter 2 Annex 4).
- The disclosure of receivables and payables by 'NHS' and 'non-NHS' has been clarified to require separate disclosure only of receivable and payable amounts with other DHSC and NHS bodies (including MHRA and NHS Blood and Transplant) (paragraphs 5.101 and 5.108).
- The requirement to separately present purchase of healthcare from 'NHS bodies' and 'non-NHS bodies' clarified to relate to 'NHS and DHSC bodies' and 'non NHS/DSC bodies' (paragraph 5.45).
- Reference to the consolidated NHS trust account has been replaced by reference to the consolidated NHS provider account (paragraph 2.30)
- Minor amendments have been made to Chapter 3 Annex 3 exit packages and severance payments to improve structure.

- Further clarification is provided to confirm that the calculation of PDC does not include net assets relating to consolidated NHS charities (paragraph 4.166)
- Removal of the mandatory requirement for separate presentation of 'Other fees and charges' income, with clarification that NHS foundation trusts may include disclosure on fees and charges in either the annual report as a note (paragraphs 5.63 and 5.76)

Consultation question 9:

Do you have any comments on any other amendments made?

Consultation question 10:

Do you have any general comments on the draft GAM?

4. Summary of Consultation questions

- 1) Do you have any comments on the guidance provided in the GAM for the adoption of IFRS 9 Financial Instruments?
- 2) Do you have any concerns regarding the feasibility of adopting the revised treatment of DHSC loans under IFRS 9?
- 3) Do you have any comments on the guidance provided in the GAM for the adoption of IFRS 15 Revenue from Contracts with Customers?
- 4) Do you have any comments on the guidance provided regarding the adoption of IFRS 15 Revenue from Contracts with Customers disclosure requirements currently?
- 5) Do you have any comments regarding the revised HM Treasury approach to discounting general provisions?
- 6) Do you have any comments regarding detail provided for the additional disclosure requirements under IAS 7 Statement of Cash Flows?
- 7) Do you have any comments regarding the highly paid locum disclosure?
- 8) Do you have any comments regarding the use or application of the External Finance Limit for your organisation?
- 9) Do you have any comments any other amendments made?
- 10) Do you have any general comments on the draft GAM?

5. Responding to the consultation

We are keen to hear your views on the details of the proposals. The draft GAM and consultation document is published on the Department of Health and Social Care Finance Publications section of GOV.UK.

In line with digital best practice the consultation has been launched on the online portal citizen space. A link to the consultation is provided along with the draft documents on gov.uk and for convenience a link is also provided below:

<https://consultations.dh.gov.uk/accounting-policy/group-accounting-manual-2018-19-consultation>

If you have any questions regarding the consultation or its contents, please liaise with your sector leads in the first place. These are identified as follows.

NHS Providers: [*provider.accounts@improvement.nhs.uk*](mailto:provider.accounts@improvement.nhs.uk)

NHS commissioners: [*England.yearendaccounts@nhs.net*](mailto:England.yearendaccounts@nhs.net)

Other Arm's Length bodies: [*DH_GAM@dh.gsi.gov.uk*](mailto:DH_GAM@dh.gsi.gov.uk)

Audit firms: [*DH_GAM@dh.gsi.gov.uk*](mailto:DH_GAM@dh.gsi.gov.uk)

Consultation responses must be submitted on citizen space by the closing date of **Friday 23 February 2017**.