

Monitor

Making the health sector
work for patients

Changes to the NHS foundation trust annual reporting manual 2015/16: summary of consultation responses



About Monitor

As the sector regulator for health services in England, our job is to make the health sector work better for patients. As well as making sure that independent NHS foundation trusts are well led so that they can deliver quality care on a sustainable basis, we make sure: essential services are maintained if a provider gets into serious difficulties; the NHS payment system promotes quality and efficiency; and patients do not lose out through restrictions on their rights to make choices, through poor purchasing on their behalf, or through inappropriate anti-competitive behaviour by providers or commissioners.

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Context

All NHS foundation trusts must publish annual reports and accounts. Clear and transparent reporting helps a trust – as well as its governors, members and patients – understand and scrutinise the year’s operations and outcomes.

As the regulator, we direct the form in which the annual report and accounts should be prepared, the information which 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.

To achieve this, we issue the *NHS foundation trust annual reporting manual* (FT ARM) every year. This contains the requirements NHS foundation trusts need to follow when preparing their annual reports and accounts.

The FT ARM requires NHS foundation trusts 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 FT ARM only includes detailed accounting guidance where NHS foundation trusts are:

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

Updates to the FT ARM follow the same principle and, on that basis, are required where IFRS or the FReM have changed or when NHS foundation trusts must make specific extra disclosures.

The consultation

We consulted on proposed changes to allow for feedback from interested parties before finalising the FT ARM 2015/16. We summarise below the responses to questions in the consultation.

Overview of responses

Monitor received 32 responses to the consultation: 27 (84%) from NHS foundation trusts and the rest from accounting firms and other bodies. Appendix A contains a full list of respondents, excluding those organisations that asked us to keep their identity confidential. To maintain confidentiality, this document does not identify individual respondents.

Not all respondents answered all the consultation questions. The response data set out below for each question include relevant comments from respondents, even where they chose not to answer the specific question posed. Some respondents left

questions blank. We considered all comments. Paragraph references refer to the revised FT ARM published alongside this document.

We are grateful to all respondents. We have considered your feedback carefully and it has influenced our decisions on the proposals to be adopted.

Detail of consultation questions and responses

A. IFRS 13 – Fair value measurement

International Financial Reporting Standard (IFRS) 13 defines ‘fair value’ and is intended to replace or supplement most other references to fair value in existing standards. The FReM has adopted IFRS 13 without adaptation, but in practice its impact is limited by adaptations to other standards that restrict the scenarios where fair value accounting is applied, particularly in relation to non-current assets.

In continuing with the FReM’s adaptation of International Accounting Standard (IAS) 16, assets which are held for their service potential (ie 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. For specialised assets, current value in existing use should be interpreted as the present value of the asset’s remaining service potential. These valuation approaches are therefore unchanged from the basis previously used.

The FReM introduces surplus assets as a new concept. Assets that were most recently held for their service potential but are surplus should continue to be valued at current value in existing use if there are restrictions on the trust or the asset which would prevent access to the market at the reporting date. If the trust could access the market, the surplus asset should be valued at fair value using IFRS 13.

Assets that are not held for their service potential should be valued according to 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 under IFRS 13.

The consultation proposed implementing IFRS 13 as adopted by the FReM.

Consultation question 1

Do you have any comments on our proposal for implementing IFRS 13 as adopted by the FReM for NHS foundation trusts?

Summary of responses

Responses to this question can be summarised as:

- supportive: 5
- accepting the proposal but some comments: 10

- no clear opinion: 9
- against: 0
- no relevant comments: 8.

Most NHS foundation trust respondents expected these changes to have minimal impact on their accounts.

One trust was concerned that identifying surplus assets could be time-consuming, particularly for smaller assets. We cannot implement a de minimis for the concept of surplus assets as this is not part of the FReM. NHS foundation trusts should remember the general concept of materiality that applies in IFRS and in concepts such as this in the FT ARM. We will keep this under review and are prepared to return to it in future if it proves particularly burdensome.

Another trust said the different methods of valuation might confuse the reader of the accounts. As these valuation bases are contained in existing categories of property, plant and equipment, we do not think this is a significant concern. More than one valuation approach is already used in building assets. The accounting policies will need to explain the different valuation bases used, but this is not significantly different from the previous approach.

One trust was concerned that changes in its capital programme could mean an asset moving in and out of being valued as a surplus asset. Paragraph 5.8 of the FT ARM states that in determining whether such an asset 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. Our belief is that this guidance should be sufficient to prevent assets moving in and out of 'surplus' too regularly, but we are prepared to return to this in future if it presents an issue in practice.

Two respondents asked specific questions about when the concept of surplus assets applies. As set out in paragraph 5.7 of the FT ARM, one guiding principle is whether the entity can access the market for that asset at the reporting date. As set out in Financial Reporting Advisory Board (FRAB) (121) paper 7, June 2014, restrictions on accessing the market are taken to include public sector requirements such as the legal duty to consult on the disposal of an asset.

One respondent pointed out that the template accounting policies in Annex 1 to Chapter 3 should include reference to surplus assets. We have updated this.

Monitor's decision

Given that most respondents with relevant comments offered favourable and accepting views, we have implemented the proposal that was consulted on.

We made one further amendment:

- Annex 1 to Chapter 3: template accounting policies updated to include reference to surplus assets.

B. HM Treasury's simplification and streamlining project

The results of HM Treasury's project to 'streamline and simplify' public sector bodies' annual reports and accounts have been reflected in the FReM for 2015/16. The changes are mainly aimed at central government departments, but focus on ensuring the annual report and accounts are relevant to the reader of the accounts. Monitor applies this principle to the reporting requirements for foundation trusts. The overall structure of a foundation trust's annual report follows the FReM requirements, so the FReM changes affect this. The Department of Health is also adopting the new format for the annual reports for other NHS bodies.

The overall structure of the annual report and accounts has been largely adopted from the FReM to achieve comparability in reporting between foundation trusts, NHS trusts and other NHS bodies. We made several adaptations to the FReM requirements in adopting the new format in the FT ARM to improve its application to NHS foundation trusts. We also simplified Chapter 7 of the FT ARM, removing some disclosure requirements and relocating previous 'additional disclosures' to make clearer how they fit into the annual report. We also revised the chapter so that the requirements are all self-contained within the FT ARM; the user no longer needs to refer to the Companies Act or its schedules to understand what is required.

These changes were explained more fully in the consultation document.

Consultation question 2:

Do you have any comment on our proposals for changes to the structure of the annual report and accounts?

Summary of responses

Responses to this question can be summarised as:

- supportive: 14
- accepting the proposal but some comments: 4
- no clear opinion: 7
- against: 0
- no relevant comments: 7.

Most respondents were in favour of how we adapted these requirements for NHS foundation trusts, with many commenting that our changes to Chapter 7 would make it easier to prepare a foundation trust annual report. Some commented that, while they welcomed the changes, they hoped this would bring a period of stability to the format and structure of annual reports. We agree with this and will communicate it to HM Treasury.

As guided in the consultation document, we have added information to the FT ARM on which parts of the annual report are subject to review by the foundation trust's auditors. This is reflected in paragraphs 7.11 and 7.24. The list of items is the same as in the consultation document.

Two respondents said the disclosure of staff numbers did not require inclusion of agency staff numbers whereas the staff costs disclosure did. The staff numbers note format is defined in the Foundation Trust Consolidation (FTC) template and does include agency staff numbers. Separately, we have improved the guidance for the staff numbers disclosure so it refers readers to the Health and Social Care Information Centre's (HSCIC) *Occupation code manual* for further information. This brings no change in practice to the disclosure NHS foundation trusts have been preparing (based on the note in the FTCs), except for inclusion of the 'healthcare science' category referred to in the HSCIC manual.

One firm felt that retaining quality governance disclosures as part of the directors' report was contrary to the simplification objective and duplicated the quality report. We feel that quality governance is an important part of an NHS foundation trust's accountability and retaining this area within the directors' report is important to achieve the right balance in accountability. However, it is not intended to duplicate material, and paragraph 7.26 of the FT ARM makes clear that it is acceptable to signpost where these disclosures are made elsewhere in the annual report (such as the quality report). If the trust is not able to cross-refer, the FT ARM says that this section 'should summarise briefly'.

One trust said it assumed it would remain acceptable to refer the reader to the remuneration tables in the accounts rather than duplicate them in the remuneration report. The FT ARM has not allowed this for some years. The single total figure table for the remuneration report must be presented in the remuneration report (as previously). If an NHS foundation trust wishes to duplicate this in the accounts it may do so, but this is not a requirement.

One firm noted that the performance report requirements refer to the 'principal risks' that the trust faces, while the model annual governance statement refers to the 'the principal risks to compliance with the NHS foundation trust licence condition 4 (FT governance)'; it queried the link between these two. There may be some overlap, but the latter will usually be a subset of the first. If there is a risk to compliance with the licence's governance condition, this may translate into an organisational level risk for

the performance report to consider. Equally, however, there may be other organisation level risks that do not relate to matters covered by the licence's governance condition.

Monitor's decision

As most respondents were in favour, we have implemented the proposals for Chapter 7 as shown in the draft FT ARM. In addition, we made the following amendments:

- Paragraphs 7.11 and 7.24 updated to provide guidance on elements of the annual report subject to review by the foundation trust's auditor. This list is the same as that in the consultation document.
- Paragraph 7.79: improved guidance on categories to use in the analysis of staff numbers.

C. Additional disclosures relating to the unitary payment made in respect of 'on-balance sheet' service concession arrangements

In 2014/15 we began to collect additional information relating to payments to the service concession operator(s) in FTC forms. This usually relates to private finance initiative (PFI) schemes. This information breaks down the total paid across different elements of the scheme in accordance with the PFI model.

The consultation proposed that from 2015/16 foundation trusts would also have to disclose this information in the notes to the accounts.

Refer to paragraph 5.51(c) of the FT ARM.

Consultation question 3:

Do you have any comment on our proposals to require additional disclosure relating to payments made to operators of service concession schemes?

Summary of responses

Responses to this question can be summarised as:

- supportive: 4
- accepting the proposal but some comments: 6
- no clear opinion: 5
- against: 0
- no relevant comments: 17.

One trust said the disclosure would add little value if the trust had a small value scheme and recommended a de minimis be set for the disclosure. We do not wish to mandate such a de minimis for application to this note, but the concept of materiality

applies throughout the annual report and accounts (except for cases where thresholds are explicitly set or a disclosure is material by nature).

One firm recommended that we require disclosure of any PFI support income being provided to the trust. We have chosen not to mandate this to keep the disclosure as streamlined as possible, but this does not preclude an NHS foundation trust from disclosing this information if it wishes.

Monitor's decision

Monitor has implemented the proposals on additional disclosures relating to service concession arrangements, as most respondents with relevant comments were in favour or accepting. No further amendments were required as a result of the consultation.

D. Remuneration reporting for senior managers paid more than the Prime Minister

In June 2015 the Secretary of State for Health wrote to the chairs of NHS foundation trusts, NHS trusts and clinical commissioning groups setting out how pay of the most senior NHS staff related to the current efficiency challenge. As part of this letter, the Secretary of State raised specific points about senior managers paid more than the Prime Minister.

The consultation proposed that as part of the future policy disclosures in a foundation trust's remuneration report, where one or more executives are paid more than the Prime Minister, the foundation trust should explain how it has satisfied itself that this remuneration is reasonable.

Refer to paragraph 7.39 of the FT ARM.

Consultation question 4:

Do you have any comment on our proposals to require additional disclosures relating to the policy for senior managers paid more than the Prime Minister as set out above?

Summary of responses

Responses to this question can be summarised as:

- supportive: 4
- accepting the proposal but some comments: 5
- no clear opinion: 12
- against: 4
- no relevant comments: 7.

Most respondents who expressed an opinion were in favour or accepting of the proposal but some made helpful comments.

Some queried where the published salary of the Prime Minister could be found. To simplify the requirements and avoid confusion if the Prime Minister's salary changes, we have amended the wording of the requirement to apply to senior managers paid more than £142,500 (rather than referring to the Prime Minister's salary). This is the threshold the Civil Service uses for approval by the Chief Secretary to the Treasury, as set out in Cabinet Office guidance. It currently equates to the Prime Minister's ministerial and parliamentary salary. The Cabinet Office approvals process does not apply to NHS foundation trusts, but this is considered a suitable benchmark above which NHS foundation trusts should make this disclosure.

Three respondents who were against the proposal felt the Prime Minister's salary was an arbitrary benchmark. Amending the definition of the disclosure to that at which senior civil service pay requires approval may partly address this.

One respondent queried how this disclosure should apply to a part-time senior manager, and another asked which elements of remuneration should be included in 'salary'. While the second point was covered in a footnote in the draft FT ARM, we have reworded paragraph 7.39 to make both points clearer.

Monitor's decision

We have implemented our proposals for requiring disclosure of details regarding senior managers' pay over a certain amount, with the following amendments:

- Paragraph 7.39: rather than require disclosure where a senior manager's pay is greater than the Prime Minister's, the disclosure is now required for amounts greater than £142,500. In addition, information has been added about senior managers who work part-time.

E. Other changes

Other changes, considered more minor in nature, were made to the FT ARM for 2015/16. These include minor changes and developments arising from accounting standards in 2015/16 as well as those arising from developments in Monitor's regulatory regime. We provided a list in the consultation document.

Consultation question 5:

Do you have any comments on the other changes listed or any other amendments?

Summary of responses

Responses to this question can be summarised as:

- commenting on changes in the draft FT ARM: 18
- no relevant comments: 14.

One firm said the link between paragraphs 3.21 and 7.15 on 'going concern' could be improved and in particular commented on the need for disclosures to be included in both the annual report and the accounts. We have made paragraph 3.21 clearer.

Two respondents commented that the clear statement in the agreement of balances guidance that the default is for recharge transactions to be accounted for on a gross basis was not included in the FT ARM. We have now added this to paragraphs 4.3 and 4.14, but it is not shown in bold italics as it is not a change in substance.

Based on comments from one respondent, the new wording added to paragraph 4.23 about the analysis of operating expenses has been amended to improve clarity.

The FT ARM requires, in paragraph 4.25, that the analysis of operating expenses should include expenditure on consultancy. The draft FT ARM referred to a definition provided in the *Department of Health manual for accounts*. Three respondents asked if this could be replicated in the FT ARM. This has now been added as Annex 1 to Chapter 4. One trust said it had an expenditure line for 'consultancy, legal and professional fees' and would like to retain this. The foundation trust accounts should include a single line for consultancy, and all services that meet the definition provided in Annex 1 to Chapter 4 should be included in this line.

One firm suggested further guidance could be added to paragraph 6.9 stating that the external auditor's assurance on the trust's quality report is not part of the statutory audit under the Code of Audit Practice, and so should be disclosed as 'other services: audit-related assurance services'. We have added this detail. We have also removed the outdated reference to 'further assurance services' in paragraph 6.8.

One trust requested that a definition of 'key management personnel' be added to the FT ARM as part of the reference to the update to IAS 24. This term comes from the standard, so we do not intend to replicate the definition in the FT ARM.

One firm asked that the FT ARM be clearer about the impact on the annual report of subsidiaries within a foundation trust's group, in particular, regulatory rating disclosures. An NHS foundation trust's in-year monitoring returns should be prepared on a group basis (except for charitable funds) and the regulatory ratings will flow from this. Wording to this effect has been added to paragraph 7.88.

In addition, our additional requirements for quality reports have now been added in Annex 2 to Chapter 7. There are no changes to the requirements in 2014/15. In the

coming weeks we will publish a separate document providing the format of foundation trusts' quality reports in 2015/16 which incorporates the requirements of the quality accounts regulations.

The box below summarises the further changes made to the FT ARM, including those not directly relating to consultation response comments.

Monitor's decision

The changes to other disclosure items proposed in the consultation have been adopted in the FT ARM 2015/16.

In response to comments and other feedback, we have changed:

- Paragraph 1.14: submission dates added in line with Monitor's timetable letter¹ of 15 October 2015.
- Annex 2 to Chapter 1: minor points of clarity added after feedback from the DH Parliamentary Clerk:
 - makes clearer that the title page items must be in the order listed
 - guidance added for trusts that change their name after the reporting period ends
 - states that font used on the title page and cover sheet should be a reasonable size.
- Paragraph 3.21 on going concern: clearer reference to additional guidance in Chapter 7 of the FT ARM and where disclosures should be made.
- Paragraph 4.3 and 4.14: added clarity (as found in agreement of balances guidance) that the default is for all recharge transactions to be treated gross.
- Paragraph 4.15: reference added to the *Department of Health group manual for accounts 2015/16* for further guidance on the Better Care Fund, should this be needed.
- Paragraph 4.23: the paragraph requiring the operating expenses note be presented in the accounts updated to improve clarity.
- Annex 1 to Chapter 4: definition of consultancy expenditure added. This has been copied from the *Department of Health group manual for accounts*.
- Paragraph 5.63 and example accounting policies: guidance added on how loans from the Department of Health should be measured. This is consistent with the existing approach taken by the majority of NHS foundation trusts with such loans.
- Paragraph 5.83: the term 'value' clarified as 'current value in existing use' and a reference to the FReM paragraph 7.1.13 added.

¹ https://whitehall-admin.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/469463/Monitor_Timetable_letter_Oct_2015.pdf

- Paragraphs 6.8 and 6.9: guidance added on where quality reports assurance fees should be disclosed. An outdated reference to 'further assurance services' removed.
- Paragraph 7.88: clarification added that regulatory ratings should be disclosed on the same basis as in monitoring returns; ie on a group basis excluding charitable funds.
- Annex 2 to Chapter 7: our additional requirements for quality reports have been added. These are unchanged from 2014/15.

Future changes expected to be made to the FT ARM 2015/16

We do not currently expect future changes to cause revisions to the FT ARM later in the year.

Future plans for the FT ARM

Monitor and the Department of Health are currently working on converging the FT ARM and the *Department of Health group manual for accounts* into one joint manual in 2016/17. As a result we anticipate DH's manual will be revised and apply to all bodies' accounts, including NHS foundation trusts'. Monitor will continue to set the requirements for NHS foundation trusts' annual reports as part of a revised FT ARM.

Appendix A: List of respondents to the consultation, excluding anonymous and confidential responses

Accounting firms and other bodies

- Deloitte LLP
- EY LLP
- Grant Thornton UK LLP
- Mazars LLP
- National Audit Office

NHS foundation trusts

- Bolton NHS Foundation Trust
- Central Manchester University Hospitals NHS Foundation Trust
- Chesterfield Royal Hospital NHS Foundation Trust
- County Durham and Darlington NHS Foundation Trust
- Dorset County Hospital NHS Foundation Trust
- East Kent Hospitals University NHS Foundation Trust
- Great Western Hospitals NHS Foundation Trust
- Lancashire Care NHS Foundation Trust
- Lancashire Teaching Hospitals NHS Foundation Trust
- Lincolnshire Partnership NHS Foundation Trust
- Northumberland, Tyne and Wear NHS Foundation Trust
- Peterborough and Stamford Hospitals NHS Foundation Trust
- Royal Berkshire NHS Foundation Trust
- Royal Devon & Exeter NHS Foundation Trust
- Salford Royal Foundation Trust
- Sheffield Health and Social Care NHS Foundation Trust
- South Essex Partnership University NHS Foundation Trust
- South Western Ambulance Service NHS Foundation Trust
- Surrey and Borders Partnership NHS Foundation Trust
- The Black Country Partnership NHS Foundation Trust
- The Christie NHS Foundation Trust
- The Hillingdon Hospitals NHS Foundation Trust
- The Robert Jones and Agnes Hunt Orthopaedic Hospital NHS Foundation Trust
- The Walton Centre NHS Foundation Trust
- University Hospitals Bristol NHS Foundation Trust

Two respondents asked us to keep their identities confidential.

In addition, comments by the Department of Health Parliamentary Clerk office have been reflected in the FT ARM.



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Contact us

Monitor, Wellington House,
133-155 Waterloo Road,
London, SE1 8UG

Telephone: 020 3747 0000
Email: enquiries@monitor.gov.uk
Website: www.gov.uk/monitor

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