

Financial Reporting Advisory Board Paper

Department of Health Group Accounting Manual 2017-18

Issue:	This paper provides an update on plans to publish the 2017-18 Department of Health Group Accounting Manual, and presents a first draft. This is in advance of consultation on the Manual and updates to reflect any changes in the 2017-18 FReM.
Impact on guidance:	The Manual supplements the FReM for the DH Group
IAS/IFRS adaptation?	The Manual follows the adaptations and interpretations in the FReM
Impact on WGA?	N/A
IPSAS compliant?	N/A
Interpretation for the public sector context?	The Manual follows the adaptations and interpretations in the FReM
Impact on budgetary regime?	N/A
Alignment with National Accounts	N/A
Impact on Estimates?	N/A
Recommendation:	FRAB is asked to approve proposals for publication of the DH Group Accounting Manual, and the continued divergences from the HM Treasury FReM.
Timing:	2017-18

DETAIL

Background

1. The Department of Health's Group Accounting Manual for 2016-17 was presented to FRAB in draft in March 2016 and approved in August 2016, following a consultation with users. The Manual was subsequently published in early September 2016.
2. This edition of the Manual combined for the first time the accounting requirements of the whole DH group, and replaced the previous accounting manuals published separately by Monitor and DH for NHS foundation trusts and the rest of the NHS respectively. Monitor, now operating as NHS Improvement, continues to publish a separate FT Annual Reporting Manual providing guidance specifically on the preparation of annual reports by NHS foundation trusts.
3. FRAB has, in the past, expressed an interest in the timetable for publication of DH's Manual being brought forward to an earlier point in the accounting year. DH's response has hitherto been that publication in the summer is the earliest that can be achieved whilst accommodating a consultation with the NHS after preparation of year end accounts.
4. DH has considered its approach to ongoing publication of Manual, taking into account the limited changes to accounting requirements for 2017-18, and now proposes to publish the Group Accounting Manual for 2017-18 at the end of April 2017. This will incorporate an earlier consultation in January/February 2017.
5. This paper sets out the timetable for publication and presents a first draft of the Manual.

Rationale for timetable change

6. A significant amount of work was carried out in preparing the 2016-17 Manual, which involved merging the text of the previous manuals prepared by DH and Monitor. This could not have been completed to an earlier timetable. However, there are no new accounting standards for 2017-18 and no significant changes to existing standards. Fundamental changes to the Manual are therefore not required, and the opportunity exists to prepare the 2017-18 Manual to a shorter timetable with an earlier publication date.
7. The 2018-19 and 2019-20 financial years will see the introduction of three new accounting standards: IFRS 9 – Financial Instruments, IFRS 15 – Revenue from Contracts with Customers, and IFRS 16 – Leases. It will be important to provide guidance on these standards at an early point in the financial year in which they come into effect. Sufficient time must also be allowed for the development of such guidance. This will not be possible if publication of the Manual continues to the current timetable.
8. Publication of the 2017-18 Manual in late April 2017 will allow work preparing guidance on IFRS 9 and IFRS 15 to be carried out during the summer of 2017, enabling a first draft of the 2018-19 Manual to be presented to FRAB in November 2017. A similar timetable will then follow for the 2019-20 Manual, incorporating guidance on IFRS 16. The limited change required in 2017-18 means this is the only opportunity to bring forward the timetable in this way.
9. The high level timetable for publication of the 2017-18 Manual is set out at Annex A. Following presentation of the first draft to FRAB in November, the Manual will be updated to reflect any changes in the 2017-18 FReM, due to be published in December 2016. A consultation with the user community will then follow in January/February 2017, which will fall between the preparation of Q3 and Q4 accounts by NHS bodies. The final version of the Manual will then be submitted for FRAB approval in late March, allowing publication at the end of April 2017.

DH Group Accounting Manual 2017-18

10. The draft 2017-18 Manual is presented at Annex C.

11. There are no significant changes in accounting guidance. The document has, however, undergone some restructuring and review to improve the flow of the guidance and its overall clarity.

12. In particular, the previous text has been reordered into new chapters, separating guidance on accounting principles and application from instructions on disclosures and content of financial statements. The new chapter structure is as follows:

- Chapter 1 Introduction
- Chapter 2 Financial reporting framework
- Chapter 3 Form and content of the annual report
- Chapter 4 Accounting principles and policies
- Chapter 5 Form and content of the financial statements

13. Where necessary, additional contextual content has been added to ensure a logical flow to the reordered document. Other changes to the text are summarised at Annex B. These include the incorporation of mandatory disclosure requirements into the Manual itself, rather than relying on separate illustrative accounts documents.

14. This draft of the Manual does not reflect any changes in the 2017-18 FReM. Once this has been published, the Manual will be updated as required, ahead of consultation with users.

Pooled budgets and the Better Care Fund

15. The 2016-17 Manual included an annex giving guidance on pooled budget arrangements under the Better Care Fund, which was originally written in 2015-16. A separate annex gave brief guidance on other pooled budgets. Feedback was received as part of the consultation for the 2016-17 Manual that this guidance was unclear and did not reflect the reality of many of the Better Care Fund arrangements that were in place. In particular, the assumption that most arrangements would constitute joint operations proved incorrect.

16. There was insufficient time to redraft the guidance for the original publication of the 2016-17 Manual, but new guidance has now been drafted for the 2017-18 Manual. This merges the two previous annexes into a single annex on pooled budgets and joint arrangements (Chapter 4 Annex 8), which now deals not only with arrangements where joint control exists, but other arrangements where there is collective control and where IAS 18 is relied upon to identify agency relationships. The new annex is shorter and more direct, but does not introduce any fundamental changes to the accounting guidance and is consistent with existing practice in the NHS.

17. In light of the feedback received on the guidance currently in the 2016-17 Manual, we propose to adopt the 2017-18 text early and include it in the 2016-17 Manual by means of an FAQ update.

FReM Divergences

18. The 2016-17 Manual listed one divergence from the FReM relating to NHS foundation trusts and two relating to the core Department of Health. These divergences are unchanged for 2017-18 and are listed in Chapter 4 Annex 3 of the draft Manual.

19. HMT has confirmed its agreement to the continuation of DH's divergences for National Insurance contributions and write offs of Public Dividend Capital. The FT divergence relates to additional disclosure on directors' benefits, beyond that required in the FReM.

Next Steps

20. Following any updates for changes in the 2017-18 FReM, the Manual will be subject to consultation in the relevant health sectors in January and February 2017.

21. Following this consultation, the Manual will be updated as required and we will seek final sign-off from FRAB in March 2017. We request the establishment of a sub-group to provide this sign-off out of meeting, assuming that no significant issues arise.

Recommendation

22. FRAB is asked to:

- approve the proposed timetable for publication,
- approve the draft DH Group Accounting Manual 2017-18 for consultation,
- approve the early adoption of the new pooled budgets guidance into the 2016-17 GAM
- approve the divergences from the HM Treasury FReM, and
- agree to the establishment of a sub-group to give final sign-off.

Annex A: Timetable for publication of the 2017-18 DH Group Accounting Manual

24 Nov 16	Draft 2017-18 GAM presented to FRAB
Dec 16	2017-18 FReM published
Dec 16 - Jan 17	GAM updated for FReM changes
Jan - Feb 17	Consultation with user community on draft GAM
Mar 17	Post-consultation amendments
24 Mar 17	GAM submitted to FRAB for approval
10 Apr 17	FRAB provide approval/comments
28 Apr 17	Final 2017-18 GAM published

Annex B: Detail of changes in DH Group Accounting Manual 2017-18

2017-18 Manual reference	Change	Reason for change
Chapter 1	Revised 'Introduction' to replace previous unnumbered chapter.	Removal of text on financial reporting framework to new Chapter 2.
Chapter 2	New 'Financial reporting framework' chapter to replace previous Chapters 1 and 3.	Collects information on financial reporting framework previously appearing in introduction and Chapters 1 and 3. Guidance on change of entity status and applicability of accounting standards moved to new Chapter 4.
Chapter 3	Previous Chapter 2 retained as 'Form and content of the annual report'.	Chapter renumbered, but no significant change.
Chapter 4	New 'Accounting principles and policies' chapter.	Collects guidance on application of accounting standards previously appearing in Chapters 3-6.
Chapter 5	New 'Form and content of the financial statements' chapter	Collects guidance on disclosure and accounts content previously appearing in Chapters 4-7.
Throughout	Removal of references to separate data collection for NHS trusts, including FIMS and FMA forms.	From 2017-18, NHS Improvement will collect and consolidate NHS trust data on behalf of DH, using a common process for NHS trusts and foundation trusts.
Throughout	Consistent use of 'must' to signify mandatory requirements, generally replacing 'should', and 'may' to signify optional requirements.	Feedback received that previous terminology, especially 'should', could be interpreted to mean that guidance is considered good practice but not mandatory.
Chapter 2 Annex 4	Guidance on laying accounts in Parliament shortened, with link to separate, more detailed guidance.	Guidance was not consistent with the purpose of the Manual, and will need to be updated after publication of the Manual.
Chapter 4 Annex 1	Annex on 'Standards and applicability to DH group' updated in line with IFRS	Annex is intended to summarise adaptations and interpretations and

	adaptations and interpretations in FReM table 6.2. Text comprising additional guidance moved to body of Chapter 4.	should not include guidance not appearing in the main body of the Manual.
Chapter 4 Annex 8	Revised annex on 'Accounting for pooled budgets and joint arrangements' to replace previous annexes on Better Care Fund and other pooled budgets.	To ensure guidance applies consistently to all pooled budgets and reflects reality of existing arrangements, many of which do not involve joint control. Guidance made more concise, with additional guidance on agency relationships, but no fundamental change to underlying principles.
Paras. 2.22-2.26	Additional detail on designation and departmental accounting boundary.	Provides additional context and improves clarity and flow.
Paras. 2.36-2.42	Additional detail on budgeting framework.	Provides additional context and underpins additional data collection requirements for budget adjustments.
Paras. 4.33-4.39	Guidance on prior period adjustments redrafted for clarity, with no change to underlying principles.	Amended for clarity.
Para. 4.39	Prior period adjustment guidance for NHS foundation trusts extended to include NHS trusts.	See above. From 2017-18, data for all NHS providers collected on a consistent basis by NHS Improvement.
Paras. 4.81-4.85, 4.101-4.107	Improved guidance on revaluations and impairments, reflecting FReM adaptation on treatment of impairments.	Amended for clarity.
Paras. 4.144-4.151	Improved guidance on consolidation standards.	Amended for clarity on different treatments for DH, agencies and ALBs/NHS bodies, and on implications for consolidation of group account.
Paras. 5.18-5.19	Mandatory headings for SoCNE/SoCI listed in Manual.	Manual sets out mandatory elements of content, rather than relying on separate example accounts documents.
Para. 5.27	Mandatory headings for Staff Costs listed in Manual.	Manual sets out mandatory elements of content, rather than relying on separate example accounts documents.
Para. 5.38	Mandatory headings for Operating Expenses listed in Manual.	Manual sets out mandatory elements of content, rather than relying on separate example accounts documents.
Paras. 5.50-5.52, 5.54	Mandatory headings for Income listed in Manual.	Manual sets out mandatory elements of content, rather than relying on separate example accounts documents.
Paras. 5.75, 5.83	Mandatory classes of PPE and Intangibles listed in Manual.	Manual sets out mandatory elements of content, rather than relying on separate example accounts documents.
Para. 5.87	Mandatory classes of Inventory listed in Manual.	Manual sets out mandatory elements of content, rather than relying on separate example accounts documents.
Para. 5.91	Requirement to separately disclose PFI capital prepayments and PFI lifecycle prepayments.	Required to underpin correct treatment of PFI lifecycle transactions in cash flow statement.

Para. 5.95	Mandatory headings for Cash and Cash Equivalents listed in Manual.	Manual sets out mandatory elements of content, rather than relying on separate example accounts documents.
Para. 5.102	Mandatory classes of Provisions listed in Manual.	Manual sets out mandatory elements of content, rather than relying on separate example accounts documents.
Para.. 5.103	Periods for expected timing of provisions cash flows amended in line with HMT illustrative accounts.	Correction of guidance to match existing treatment by group.
Para. 5.118	Mandatory financing headings for SoCTE listed in Manual.	Manual sets out mandatory elements of content, rather than relying on separate example accounts documents.
Para. 5.122-5.124	Requirement to adjust cash flow statement for movements in payables and receivables not passing through SoCNE/SoCI.	To reflect equivalent guidance in FReM, as implemented in group summarisation schedules.
Para. 5.138	Disclosure requirements for Better Payment Practice Code set out in Manual.	Manual sets out mandatory elements of content, rather than relying on separate example accounts documents.
Para. 5.141	Disclosure requirements for Late Payment of Commercial Debts set out in Manual.	Manual sets out mandatory elements of content, rather than relying on separate example accounts documents.
Paras. 5.143-5.144	Disclosure requirements for Capital and Other Commitments set out in Manual.	Manual sets out mandatory elements of content, rather than relying on separate example accounts documents.
Paras. 5.146-5.151, 5.154	Disclosure requirements for Leases set out in Manual.	Manual sets out mandatory elements of content, rather than relying on separate example accounts documents.
Paras. 5.156-5.166, 4A5.13	Disclosure requirements for PFI/LIFT and other service concession arrangements moved from Chapter 4 Annex 5.	Reflects restructuring of Manual, with disclosure requirements collected in Chapter 5.
Para. 5.168	Disclosure requirements for Contingent Liabilities set out in Manual.	Manual sets out mandatory elements of content, rather than relying on separate example accounts documents.
Paras. 5.179-5.181	Disclosure requirements for Losses and Special Payments set out in Manual.	Manual sets out mandatory elements of content, rather than relying on separate example accounts documents.
Paras. 5.182-5.184	Losses and Special Payments guidance for NHS foundation trusts extended to include NHS trusts.	See above. From 2017-18, data for all NHS providers collected on a consistent basis by NHS Improvement.
Para. 5.187	Mandatory headings for Third Party Assets listed in Manual.	Manual sets out mandatory elements of content, rather than relying on separate example accounts documents.

Annex C: Department of Health Group Accounting Manual 2017-18

See separate document.

